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CIS

SOCIAL SECURITY ADMINISTRATIVE ISSUES

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

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SOCIAL SECURITY ADMINISTRATIVE ISSUES

THURSDAY, SEPTEMBER 23, 1982

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The subcommittee met at 9:15 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. J. J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press Release of Friday, Sept. 10, 1982]

Hon. J. J. Pickle (Democrat of Texas), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, Announces a Hearing on Social Security Administrative Issues

The Honorable J. J. Pickle (D-Texas), Chairman of the Subcommittee on Social Security of the Committee on Ways and Means, U.S. House of Representatives, announced today that his Subcommittee will hold a hearing on several social security administrative issues and initiatives, including the Administration's debt collection initiative for Title II social security beneficiaries, the possibility of issuing a counterfeit-resistant social security number card, and the progress the Social Security Administration is making in posting annual wage reports and performing recomputation of benefits for current beneficiaries. The Subcommittee will hear testimony from invited witnesses only, including the Administration, public interest groups and the General Accounting Office. The hearing will be held on Thursday, September 23, 1982, in Room 1100 of the Longworth House Office Building, beginning at 9:00 a.m.

Although only invited witnesses will testify at the hearing, those who wish to file a written statement for the record of the hearing may do so by submitting five copies of the written statement no later than the close of business, October 7, 1982, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Committee before the hearing begins.

Chairman Pickle. The subcommitte will come to order.

Mr. Commissioner, will you go ahead and have a seat.

I regret that we are getting underway 15 minutes late.

Our hearing today focuses on three important areas relating to the administration of the social security program: Collection of overpayments, use of the social security number and card, and the process of annual wage reporting and recomputation of benefits.

This subcommittee has had a long-standing strong interest in oversight of the Social Security Administration, and I believe Congress must monitor administrative actions on a regular basis and review any policy directly or indirectly set by the agency, both to uncover problems that affect beneficiaries, and to give assistance to the Social Security Administration in resolving administrative difficulties that may arise from the legislative or budget process.

The three areas we will receive testimony on today are of critical importance to the relationship between SSA and the beneficiaries it serves.

In the area of overpayment recovery, or debt collection, we will receive testimony from the administration, from the employee union, and from outside advocacy groups.

In collecting debts owed the Government, the agency must walk a fine line between collecting what is owed, on the one hand, and unduly frightening elderly and disabled beneficiaries, on the other.

It must also make an effort to see that the Government collects money due it while not drawing down on administrative resources needed to deliver services to the public.

In the area of use of the social security number card, we can only hope to scratch the surface of the extremely important issues of privacy, universal identifier, and the administrative feasibility of issuing a tamper-proof social security number card.

In light of the ongoing debate over illegal immigration problems and the plans for the administration to develop over the next 3 years a work identification system, it seems appropriate for this subcommittee to begin its own inquiries into the role the social security number and card ought to play.

Any decision to establish a tamper-proof social security card should be openly made by both Houses of Congress and not as an administrative policy change by the administration. Such a move has very serious policy and administrative implications, and should not be lightly undertaken.

This hearing will mark the beginning of what will be a continuing involvement of the committee in this issue.

Finally, the Social Security Subcommittee has constantly received reports of wage records which have not been posted for 2 or 3 years, and this kind of delay cannot be tolerated.

In this hearing, we want to learn the status of posting earnings, particularly for the years 1978 and 1979.

We are extending our inquiry to include the effects of these delays on the functioning of the social security program, especially in the areas of benefit recomputation, enforcement of the earnings limitation, and enforcement of the substantial gainful activity criteria of the disability program. It is important that we know how this delay is affecting the social security program and how much of this problem lies with systems inadequacies as opposed to management weaknesses.

Our first witness this morning is the Commissioner of the Social Security Administration, the Honorable John Svahn.

Commissioner, we hope we can give you at least a full hour. We have other witnesses.

I understand that you are due to testify in the other body by midmorning, so we will excuse you, but we hope during the afternoon or in the lunch period, or thereafter, you or Mr. Simmons can come back to be with us if we have questions at that time.

Is that agreeable?

Mr. **SVAHN**. Yes, it is, Mr. Chairman.

Chairman **PICKLE**. You may proceed.

STATEMENT OF HON. JOHN A. SVAHN, COMMISSIONER OF SOCIAL SECURITY, ACCOMPANIED BY PAUL B. SIMMONS, DEPUTY COMMISSIONER; NELSON J. SABATINI, ASSOCIATE COMMISSIONER FOR MANAGEMENT, BUDGET, AND PERSONNEL; AND ELLIOT KIRSCHBAUM, ASSOCIATE COMMISSIONER FOR SYSTEMS REQUIREMENTS

Mr. SVAHN. I am pleased to appear here today to discuss several administrative aspects of the social security programs in which the subcommittee has expressed particular interest.

I have a rather lengthy prepared testimony, Mr. Chairman, but, with your permission, I will submit that and briefly summarize it, if that would be all right with you.

Chairman PICKLE. That is all right. The entire testimony would be made a part of the record.

As you proceed, and you are referring to certain pages, I hope you tell us where you are, so we can follow.

Mr. SVAHN. I will just provide a brief verbal summary, Mr. Chairman, which will probably not correspond to the written statement.

I would like to comment on several of the areas which the committee has asked about, the first being our debt management initiatives, and then the progress we are making in crediting and using earnings information under the annual reporting system and the recomputation of benefits required on an annual basis.

Over the last 2 years, social security has been developing an improved ability to manage and collect debts as part of an overall initiative to collect the moneys that are owed to the Federal Government. This effort has received much publicity in the media and has raised many concerns about the manner in which debts owed to social security are being collected.

I want to assure this committee that throughout the effort, we have tried to balance our responsibility to conserve the trust funds with our concern for the beneficiaries of SSA's programs.

It is important to the public's confidence in social security that it be seen as an agency that efficiently manages all of its activities, including debt collection.

When I was serving on the transition team prior to my nomination, I asked the Social Security Administration to show me a list of accounts receivable and the debt management program, and, at that time, Mr. Chairman, the agency did not have either. In building public confidence, it is important that we recognize that at the present time, at least as of June 1982, the agency was owed approximately $2.2 billion. Most of it is the result of overpayments.

At the same time, it is important that social security be seen as an agency that treats people equitably and sensibly, no matter what endeavor we may be engaged in, and I have to say that sometimes this has not been the case.

While we have developed an improved capability to manage and collect debts, there have been isolated instances where mistakes have been made.

We have 88,500 people working for social security, and they deal with 36 million people who receive benefits each month. You can point to mistakes that are made by various individuals. But I think, by and large, the way we approach debt management is very balanced and fair.

When we do make mistakes, we have taken corrective action in each case, and we are increasing our vigilance to avoid future occurrences.

Our employees have been reminded and have received additional training about the importance of individual circumstances.

Our employees have been given broad latitude to insure that we can deal fairly and equitably with those who have outstanding debts.

We waive over 80 percent of the debts that are owed to us which we are legally allowed to waive.

Our goal is to resolve as quickly as possible the outstanding debts owed to social security and to retire any new debts that develop as judiciously and equitably as possible.

Contrary to popular opinion, most of these debts are not the result of computer foulups or fraud. Most result from failures to report in a timely manner events which affect eligibility or benefit amounts. Because this is the primary reason for debts owed to social security, we have tried to keep our beneficiaries regularly informed about their responsibility for reporting changes that may affect their status.

I don't really want to be in the debt collection business. I think that it is a bad business for us to be in, but one that is necessitated for a number of reasons.

One of my priorities for social security is changing policies and procedures and developing a new data processing capability which should go a long way toward preventing debt from happening in the first place.

I would like briefly to discuss some of the more troublesome operating problems in social security in the past 4 or 5 years: The processing of annual reports of earnings, benefit recomputations, and the earnings enforcement activity dependent upon earnings information.

It never ceases to amaze me: the lack of knowledge that exists about social security and about the management problems that we have. I congratulate the subcommittee for having come out to social security to look firsthand at what we are doing in the manual operations that we have in social security. And if you will recall my first appearance before this subcommittee, in talking about our data processing problems, two areas that I highlighted as major areas for improvement were annual wage reporting and the annual recomputation of benefits.

Like the financing problem, it is something that seems to pop up every so often as a new issue. But as the chairman of the subcommittee knows, it is not a new issue.

The annual wage reporting for 1978 through 1980 continues to be a problem. We are working on it, but there are a number of companies that have experienced errors or that have not had their reported earnings posted.

We encourage people to go by their local social security office and pick up a yellow form, form 7004, and fill that out and send it in, to check to see if their earnings have been posted. This one happens to be my own. I filled it out and my earnings for 1979 and

1980 have been posted, but they were in error. I am working on correcting that specific problem right now.

It is true that we are continuing to accumulate reports of earnings which we cannot post to persons' accounts at the present time. We have over $88 billion in earnings which are not posted to people's accounts. We have a project designed to reduce that amount and to get those earnings posted to accounts, but the fact of the matter is that too often the only way a person can be sure his earnings have been posted accurately is for that individual to check once every 3 years by filling out a form 7004.

In the annual earnings recomputation area we have had a considerable amount of problems. We are required to recompute benefits for beneficiaries who continue to work and receive new earnings credits.

For the past 3 years, that has not been done. If you will recall, Mr. Chairman, in previous testimony before this committee, I have indicated that it is a disgrace that there are millions of Americans who are supposed to have increased benefits, but they have not been receiving them.

This year, we have just completed automated recomputations for 1978 earnings, and we are running 1979 and 1980. These are very, very large computer runs and it takes up to 2,000 hours of computer time to run each one. But I am working very hard to make sure that we get up to date in this area.

I understand that administrations in the past have postponed running them, but we will not do that.

We will complete all three of these this year.

I think that the systems modernization plan will go a long way, once implemented, to alleviate the problems of annual reporting and the recomputation of benefits. It is a high priority in our plan, and we will be working on that throughout the next several years.

I do not have anything further to say, Mr. Chairman, and will be glad to answer any questions that you have.

[The prepared statement follows:]

STATEMENT OF HON. JOHN A. SVAHN, COMMISSIONER OF SOCIAL SECURITY

Mr. Chairman, I am pleased to appear here today to discuss several administrative aspects of the Social Security program in which the subcommittee has expressed particular interest.

I share the subcommittee's belief that our ability as an agency to accomplish efficiently and humanely the administrative tasks with which we are charged is critical to the continued success of the Social Security program. In my statement, I will discuss first the status of the Social Security Administration's initiatives in the debt management area. I will then describe the progress we are making in crediting earnings under the annual reporting system and in using this information for automatically updating benefit amounts. Last, I will review with you our recent decision to begin issuing new and replacement Social Security cards on more tamperproof paper.

DEBT MANAGEMENT

As of June 30, 1982, SSA was owed $2.2 billion by 3.2 million persons. Forty-seven percent of that total is supplemental security income (SSI) overpayments, 35 percent old-age and survivors insurance (OASI), and 18 percent disability insurance (DI). Collection of this $2.2 billion owed SSA is not only good business, but is also essential to help restore public confidence in the program. It is understandable that taxpayers become frustrated and angry when they hear that SSA has failed to collect this huge outstanding debt at a time when the Social Security program is in serious financial trouble.

I want to summarize the reasons why these overpayments occur and then I will go into the actions SSA is taking to recover the overpayments.

CAUSES OF OVERPAYMENTS

While our antiquated computer system is responsible for overpayments in some cases—and these are usually the cases which get headlines—the fact is that most overpayments are not caused by computer foulups or other administrative errors. Similarly, most cases do not involve fraud: In 1981, when we had about 3 million overpayment cases pending, SSA referred 2,800 Social Security and SSI cases to U.S. Attorneys because elements of fraud appeared to be present.

The great majority of SSA's overpayments are caused by the failure of beneficiaries to report to us those events which affect their eligibility or benefit amounts. In fiscal year 1981, over 80 percent of Social Security overpayments and over 65 percent of SSI overpayments were caused by beneficiary nonreporting or inaccurate reporting.

The earnings test is the biggest cause of Social Security overpayments in the retirement and survivors program. These overpayments occur because some beneficiaries who earn more than the annual exempt amount ($6,000 for beneficiaries age 65 and older; $4,440 for younger beneficiaries) fail to report their earnings or do not report their earnings promptly. Since every $2 of earnings above the exempt amount causes a $1 reduction in benefits, failure to report these earnings results in overpayments.

Other major causes of Social Security overpayments are failure to report, or to report promptly, marriage or remarriage by certain beneficiaries, cessation of school attendance by student beneficiaries aged 18 or over, and absence of a child in their care by beneficiaries whose benefit is based on caring for a child.

In the disability benefits area, overpayments occur for the reasons I have mentioned and for other causes unique to receipt of disability benefits: for failure to report return to work, receipt of workers' compensation or other public disability payments, and medical improvement.

In the SSI program, where eligibility is based upon old age, blindness or disability and upon income and resource criteria, the events that beneficiaries most frequently fail to report include receipt of income or resources, cessation of a disability, and changes in living arrangements.

Let me stress that beneficiaries are made aware of their reporting responsibilities at the time they apply for benefits, at the time they receive their award letter, and as often as four times yearly through check stuffers. In addition, we provide material to local media outlets at least four times a year reminding beneficiaries of their reporting responsibilities. An integral part of SSA's debt management initiatives is the prevention of overpayments by making sure that beneficiaries know their reporting responsibilities and encouraging them to report events that affect their benefits in a timely manner.

DEBT COLLECTION: A GOVERNMENTWIDE INITIATIVE

The uncollected debt problem is not SSA's alone; the Federal Government as a whole has some $33 billion in delinquent debts. The President has made a commitment to reducing these debts. In a Presidential directive issued on April 23, 1981, he noted that, "The burden of delinquent debt owned to the Federal Government continues to grow each year. . . . We must again establish the principle that debts to the the Federal Government must be paid."

As part of the President's commitment to reducing the size of the debt owed the Federal Government, OMB issued guidelines in April 1981 which set forth the following objectives:

Implementing debt collection practices to quickly recover that portion of the current backlog of delinquencies deemed collectable;

Implementing effective debt management procedures to prevent unnecessary new delinquencies; and

Taking firm action to recover newly occurring delinquencies and defaults.

The guidelines also called for each agency to submit a Debt Management Plan to OMB; a department-wide plan, including SSA's program, was submitted on September 15, 1981 and was subsequently approved by OMB.

SSA'S DEBT COLLECTION STRATEGY

In line with the administration's debt management strategy, SSA's Debt Collection Action Plan has two major goals: to retire new debt at approximately the same rate at which it is established, and to resolve the older debts as quickly as possible. In other words, we plan to eliminate the sizable backlog that accumulated through the years of lax debt collection until we are at the point where we are always working on recent overpayments. Once we work through the old debts outstanding, we expect our percentage of collections to improve since old debts are more difficult to collect than recent ones.

Some of the actions that we have taken to improve debt management in SSA are:

Established an SSA Debt Management Project Manager and staff in our Central Office and designated Debt Management coordinators in every operational component and in our more than 1,300 field offices.

Rewrote many of our debt collection operating instructions, began the process of revising some of the debt collection regulations, and trained employees responsible for debt collection on SSA's policy and on the new procedures.

Began developing a national accounts receivable system to facilitate automation of notices, accounting, billing, and various other accounts receivable functions. We expect to implement a fully automated billing system in fiscal year 1983.

Established, on an experimental basis, 44 debt collection centers (DCC's) throughout the country to develop and test various methods for locating debtors and for collecting delinquent debts. The DCC's are specialized units that process only overpayment actions and are staffed for the most part by personnel detailed from the field offices. The purpose of this experiment is to determine if specialization will produce greater collections. The results of the experiment are not yet available; however, we will be evaluating the effectiveness of these centers, which currently handle about 7 percent of field collection activity, later in the year to determine whether they should be continued.

Developed an experiment, to begin in March 1983, with the use of two private collection agencies to collect debts in cases where we have not been successful in obtaining repayment. In April 1981, a joint GAO-Department of Justice regulation advised Federal agencies to consider contracting with private sources for collection services to supplement in-house collection programs.

I want to emphasize that Federal regulation requires that private sources contracting with SSA for debt collection activities be subject to the Privacy Act, the Fair Debt Collection Practices Act (which prohibits abusive, deceptive or unfair practices and provides for penalties where such practices are detected) and any relevant Federal and State laws.

OVERPAYMENT COLLECTION PROCESS

Next, I want to give you an overview of SAA's debt collection process including the beneficiary safeguards that are an integral part of that process.

Once an overpayment is discovered, we send a letter to the overpaid person. This letter contains the following information:

A description of how the overpayment was incurred;

A request for full refund of the overpayment;

A proposal (if the person is currently receiving benefits from the same program) to withhold the overpayment at the rate of 100 percent of the monthly benefits payable if the beneficiary does not object within 30 days of the notice;

If the overpaid person is not currently receiving benefits under the program in which he was overpaid, but is receiving payments under another program administered by SSA, the notice, in social security cases, suggests withholding of benefits under the other program. The person must voluntarily sign an authorization in order for this "cross program" recovery to occur;

The possibility of withholding less than 100 percent of a beneficiary's check in order to recover the overpayment;

The right to reconsideration of the overpayment decision and/or to request waiver of repayment of the overpayment; and

The right to a personal conference if he or she is not satisfied with our decision.

If the overpaid person wants to repay his debt in installments or, in the case of a beneficiary, wants less than 100 percent of his monthly benefit withheld, SSA negotiates a repayment agreement with the person. In general, the overpayment agreement takes into account the amount of the overpayment, the availability of current monthly benefits, and the beneficiary's income, resources and normal expenses.

The circumstances which must be established in order for an overpaid beneficiary to qualify for partial check adjustment of the overpayment (or for partial repayment of the overpayment where no benefits are payable) are not arbitrary or rigid and depend upon the facts in each case. The SSA employee who processes the overpayment collection has, under our procedures, the discretion to take into account the person's financial circumstances and personal situation in setting up a repayment agreement. Generally such proposals for repayment by benefit adjustment at a rate of less than 100 percent are accepted. We do request that full recovery be completed within 3 years; however, longer periods of repayment are provided for when to do otherwise would create an undue hardship for the overpaid person.

An overpaid person also may request a waiver of recovery. The circumstances under which recovery of an overpayment may be waived are set out in the law. Recovery from any person who is without fault is waived if such recovery would defeat the purpose of the Social Security program or would be against equity or good conscience (or, additionally, in SSI cases, impede the efficient administration of the program). The waiver process for SSI does not differ significantly from the process for Social Security cases that I have just described.

After a waiver is requested, a determination is made, based on the facts in the individual case, whether or not the person was without fault in causing the overpayment. If the person is at fault, the laws governing both the Social Security and SSI programs allow us no flexibility; recovery may not be waived. In about half of the OASDI cases for which waiver is requested, the waiver is denied because the person was not without fault in causing the overpayment.

Once it is determined that the person was without fault, then the circumstances of the individual case are investigated to determine if recovery would be inequitable or would defeat the purpose of the program. We consider a person's income and resources and his normal expenses. In general, we will find that hardship exists if a beneficiary needs his full benefit to meet his ordinary living expenses and repayment would reduce his assets to a very low point. Of the 50 percent of OASDI cases in which SSA finds that the person was without fault in causing the overpayment, recovery is waived in about four-fifths of the cases.

If waiver is denied, the person receives written notice of the opportunity for a personal conference or reconsideration. The personal conference provides the overpaid person with the opportunity to contest SSA's findings on waiver in person and with witnesses and additional evidence. The personal conference, which is conducted by field office personnel, is, in effect, a face-to-face hearing. (This procedure was instituted in 1975 as a result of a U.S. District Court decision.) The overpaid person can also request a reconsideration of the waiver denial, which is a paper review of the case by program service center personnel, and if denied can pursue his case through the regular appeals process.

I might add that if the overpaid person appeals the finding of an overpayment and/or requests a waiver of recovery, SSA discontinues recovery efforts, including the withholding of benefits to recover the overpayment, until a personal conference or a reconsideration decision is made.

Another option for overpaid individuals (who meet certain conditions) is to negotiate a compromise settlement of less than the full amount of the debt. Further, if a compromise settlement cannot be reached, we may temporarily suspend recovery until the person is able to repay.

In carrying out SSA's new debt collection activities we are taking care not to infringe upon beneficiaries' rights. Most of our beneficiaries are aged or disabled and many of them are poor. With this in mind, we have attempted to develop collection techniques that are effective and reasonable. We are aware of some highly publicized cases in which beneficiaries have said that they have been poorly treated by SSA. There seem to be several reasons for this. In any new initiative of this kind, there is bound to be a certain amount of misunderstanding. In some instances, people whom we had not contacted in years regarding their overpayments are hearing from us now. Naturally some of them are apprehensive that their benefits will be cut off or that we will take other actions so that they will not have the resources to meet their basic needs.

Also, there have been a few instances in which SSA employees have failed to follow our prescribed format for collection procedures, and have, for example, devised their own language for use in notices to beneficiaries regarding overpayments. Unfortunately, mistakes of this kind sometimes occur in setting up a new program until staff gains experience with the new procedures. We have rectified these problems through training and through instructions prohibiting the use of any notices that have not been approved. We continue to review our debt collection procedures to minimize such occurrences in the future.

ANNUAL WAGE REPORTING

Now I would like to turn to a discussion of SSA's progress in crediting earnings to workers' records under the annual wage reporting system and in using those earnings to increase benefits for those beneficiaries due recomputations.

Public Law 94-202, enacted in 1976, which was effective with reports of wages paid in 1978, provided for an annual wage reporting system under which the employer wage and tax statement form (the form W-2) is used as the annual report of wages for both Social Security and Federal income tax purposes. Prior to 1978, employers furnished SSA (through the Internal Revenue Service (IRS)) with a report every calendar quarter of the amount of wages paid to each employee during the quarter; the employers also gave wage information to IRS every year on forms W-2. Eliminating these quarterly reports has had the general support of the business community, and has been particularly advantageous to small businesses, saving them hundreds of millions of dollars each year.

Another benefit of annual reporting is that SSA and IRS have access to large amounts of additional information which had not previously been processed. Under annual reporting, SSA processes and forwards to IRS six types of earnings and tax information (under quarterly reporting, IRS received and forwarded to SSA two types of earnings information—FICA wages and FICA tips). The additional information (FICA tax withheld; income tax withheld; total wages, tips and other compensation; and earned income credit) has proved very valuable to IRS in identifying underpayments of income taxes. For example, using the data available under annual reporting for taxable year 1978, IRS estimated that it assessed over $130 million in taxes based on unreported income compared with about $30 million for taxable year 1977.

The additional earnings information available under annual reporting will also prove valuable to SSA. We expect that the information on noncovered earnings, which should be available for use by next month, will be helpful in enforcing certain provisions of the Social Security program. For example, information on earnings not covered under Social Security will be especially useful in detecting overpayments of Social Security benefits to retired people who are working in noncovered employment and earning more than the maximum amount permitted under the Social Security earnings test. The information will also be useful in monitoring the work activity of disabled beneficiaries.

SSA experienced tremendous problems processing the first 2 years'—1978 and 1979—annual wage reports. The problems were caused by a number of factors. Most important, all of SSA's earnings processing systems had to be redesigned and computer programs completely rewritten. In 1978, SSA also had to prepare for implementation of an enormous change enacted in 1977—the wage indexed benefit computation system (decoupling), which stretched SSA's systems resources to their limits. As a result of the heavy workload brought about by decoupling, few resources could be diverted to annual reporting systems design. Therefore, there were numerous problems in annual report processing for 1978 and 1979.

In addition to the enormous systems adjustments required of SSA, the annual reporting system also made it necessary for 5.6 million employers to make major adjustments in their wage recording and reporting systems. SSA undertook a massive educational program to explain employer's responsibilities under annual reporting. Nevertheless, many reports from employers could not be processed by our system because they contained so many errors. In some cases employers who reported on magnetic tape used incorrect data formats which made the tapes unusable. In fact, over half of the 6,000 employer reports SSA received on magnetic tape for tax year 1978 did not meet reporting specifications for a variety of reasons. Even large Federal employers reporting on magnetic tape had serious problems in changing over to the annual reporting system. We are still correcting mistakes—both SSA's and those of employers—made in processing 1978 and 1979 earnings information.

I would like to digress at this point to urge you to tell constituents—both employees and employers—who are concerned about missing or incorrect information in their wage records or the records of their employees to go to their local Social Security offices and notify us of suspected problems. We have been keeping our field staffs informed of our problems with 1978 and 1979 earnings records and they are prepared to initiate investigations to make any necessary corrections to earnings records.

Despite some remaining stumbling blocks, SSA has, with the cooperation of employers, made substantial progress since the 1978 tax year in reducing the amount of time it takes to credit earnings to individual earnings records under the annual reporting procedure: for 1978, it took nearly 39 months to substantially complete the processing; for 1979, it took about 27 months to do so; for 1980, it took about 15 months. We expect that it also will take about 15 months to complete the processing for 1981 earnings.

However, there is an important point that I need to make here and that is that delays in crediting earnings now are due primarily to our obsolete systems, not to inherent defects in the annual wage reporting system. We could have shortened the time for processing 1981 earnings to about 12 months, if we were not so hard-pressed for computer time. Given that our first priority is paying regular monthly benefits on time, we simply do not have the approximately 5,000 hours of large-scale computer time needed to meet a 12-month schedule.

One thing I want to make clear is that no matter how quickly we receive, prepare and validate wage items employers send us, those items cannot be credited until we have sufficient time to run the computer operation for crediting wages to individual earnings records. As a result, at any given time there are hundreds of thousands of items completely ready for crediting and just waiting for computer time. The size of the earnings crediting operation and the demands on the computers by other important programs has meant that we have only been able to run the computer program for crediting earnings three times a year, rather than the four times we had scheduled. Ideally, we would like to be able to credit earnings items to individual accounts as soon as we have them ready for crediting.

Crediting wages to individual earnings records is very important in administering the Social Security program. Earnings must be credited and available for our use in monitoring the work activity of disabled beneficiaries, in detecting overpayments to people earning more than the amount permitted by the earnings test and for the recomputation of benefits.

Although it will not be easy given our present systems capabilities, our goal is to reduce the earnings crediting time for any given calendar year to about 10 months following the close of that year. This processing time is only 1 month longer than the time it took to update earnings records following the close of a calendar quarter under quarterly reporting. While we continue to improve our annual wage reporting procedures, basic improvement is dependent on the realization of the long-term Systems Modernization Plan which I presented in February of this year. In addition, a redesign of the earnings system is one of our priority projects. Consequently, I expect continued progress in this area.

AUTOMATIC EARNINGS REAPPRAISAL OPERATION (AERO)

A related area I want to discuss is the status of the project to process Social Security benefit recomputations to include 1978–1980 covered earnings. The Social Security Act requires that SSA perform periodic reviews of the earnings record of a beneficiary who continues to work to determine whether his or her benefit should be increased—or recomputed—to reflect any earnings not included in the initial computation. In refiguring the Social Security benefit, covered earnings not included in the initial computation may be substituted for years of lower earnings previously used. If the additional earnings in a year are high enough to raise the benefit amount, the increase is generally effective with January of the following year. AERO is the term used to designate the process by which the earnings records of beneficiaries are automatically screened for possible recomputations and, where appropriate, for the payment of such increases.

Prior to the switch to annual reporting for the 1978 tax year, the AERO process was completed timely—except during the mid-1970's when there were some scheduling delays. Since 1978, the delays in crediting earnings on which recomputations are based under the annual reporting system have resulted in similar lags in AERO. The AERO process to review covered earnings credited for 1978 was started in November 1980. The processing of approximately 85 percent of the cases where a benefit recomputation was due based on 1978 earnings was completed by the spring of 1981, and any benefit increases due have been reflected in monthly benefit checks since that time. The remaining 15 percent of 1978 cases were not processed at that time—generally, because there was some question about the earnings credited for that year.

The AERO process to review covered earnings for 1979 and 1980 (and the remaining cases involving 1978 earnings) is currently underway. It is expected that approximately 3.5 million of the 31 million cases reviewed by AERO to include 1979 and 1980 earnings (and the remaining 1978 earnings) will result in increased benefit payments.

We have already completed processing nearly one-fifth of these cases (about 0.6 million) and the benefit increases will be reflected in some checks as early as

October. (Benefit increases due to recomputations are paid retroactive to the month they were effective—regardless of when the AERO is completed.) Of the remaining cases, about 2 million will be fully automated; in these cases, the processing should be completed by December of this year.

The remaining AERO recomputations, approximately 1 million cases, will require a manual review in a program service center before payment can be made. This represents a major workload for the program centers. Although this workload will be given a high priority, it will take some time—up to 6 months after the automated cases are done—to complete the manual cases.

The AERO processing of 1981 earnings will be scheduled as soon as possible after the process of crediting 1981 earnings is completed early next year.

While we have made some progress in clearing up recomputations of benefits to include 1978–1980 earnings, I am not satisfied with how we have met our responsibilities to the public in the area of updating their benefits to reflect additional earnings. Let me describe in a little detail what we have been up against:

The top systems priority at SSA on a day-to-day basis is our basic mission of getting monthly checks to Social Security beneficiaries and SSI recipients. Everything else—even priorities like crediting earnings and doing recomputations—must take second place to getting benefit checks delivered to the right people, in the right amounts, and on time. Until our computers and software are modernized, this situation will not change.

Right now, there is tremendous competition for the computer time required to complete the tasks we have discussed here today. As I noted earlier, it will take us about 5,000 computer hours to finish processing most of the 1981 annual wage reports. That's the equivalent of one large-scale computer running full time for a year. This process must be completed before the earnings information can be used in any of several other important jobs, such as:

AERO (which requires about 2,000 hours to process earnings for a given year); and

Enforcement activities such as:

Matching earnings credits against beneficiary reports of earnings to verify compliance with earnings test rules (which requires approximately 1,000 hours each year) and

Monitoring the disability rolls to determine if disabled beneficiaries have failed to report work activity (which requires about 240 hours each year).

By juggling priorities we will accomplish these tasks to the best of our ability over the next several months, but we firmly believe that our best hope for a long-term solution to problems in the earnings systems area lies within the framework of the Systems Modernization Plan.

For the benefit of constituents who write or speak to you concerning wage reporting problems, you can reassure them that, generally, people filing for Social Security benefits are not adversely affected by delays in the crediting of earnings under the annual wage reporting system. This is because the employee's copy of a W-2 can be used as evidence of earnings during the period of delay. A person who is planning to apply for Social Security benefits and who is unsure that all of his covered wages have been properly credited should take copies of pertinent W-2's with him to his local Social Security office when he applies. The local office will see to it that any computation of his benefits includes the earnings that may not be recorded. Retirees who think that reporting problems may have caused an underpayment of Social Security benefits may request a review of their records and submit copies of W-2's if their records are incomplete. If an increase is due, we will pay the additional benefits promptly.

COUNTERFEIT-RESISTANT SOCIAL SECURITY CARD

You asked that I discuss our decision to print Social Security cards on security paper and the effect of that step on use of the Social Security card as an identifier. At the outset, I must emphasize that the Reagan administration has repeatedly stressed its opposition to the creation of a national identity card, thus continuing the position previous administrations of both parties have taken on this issue.

The principal concern about the concept of a universal personal identifier centers around questions of individual privacy. In this age of computers and automated data banks, the creation of a secure identification system, coupled with a common universal identification number, could lead to the combination and possible misuse of detailed information on an individual from various governmental and private data files.

In addition to these privacy concerns, any effort at this point to make the Social Security card a truly "secure" identification document ultimately must be ineffective because the card can only be as reliable as the documents on which it is based and those documents are themselves very subject to counterfeiting and misuse. For example, counterfeit and fraudulently obtained valid birth certificates, driver's licenses and immigration documents are available for sale in most major cities.

Even though we oppose any use of the SSN and card as a national identifier, we recognize that they are widely used for identification and are often perceived as being good identification documents. Given this situation, we think we have a responsibility to make it more difficult to counterfeit and misuse the card when we can do so in a cost-effective way, and we have undertaken a number of steps to accomplish this. Briefly, these steps are:

Printing Social Security cards on more counterfeit-resistant paper.

Training Social Security field employees who take SSN applications to recognize counterfeit or altered immigration documents.

Tightening controls and reviews of SSN applications through the new District Office Direct Input system to reduce the possibility of obtaining cards fraudulently by bypassing any part of the issuance process.

Removing all card stock from district offices so that blank card stock cannot be stolen or misused.

Annotating cards issued to legal aliens who are not authorized to work in this country with a prominent legend, "Not Valid for Employment."

Deleting SSN's from the stub portion of the card so that people cannot use the stub to obtain work.

Electronically crosschecking nonwork SSN's with INS records to detect earnings by legal aliens who are not authorized to work in this country.

Although not necessarily the most important of these improvements, printing new and replacement Social Security cards on security quality paper should reduce the susceptibility of the card to counterfeiting and tampering. We plan to implement this change only on a prospective basis because of the cost and burden on the public of reissuing a new Social Security card to everyone in the country.

I want to stress that our decision to print new and replacement Social Security cards on security paper is based only on the fact that this step will, at a very low cost, eventually make counterfeiting of Social Security cards very difficult.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions which you may have.

Chairman PICKLE. Commissioner, you have submitted to us a statement, nearly 40 pages, and you have summarized it here in less than 5 minutes.

I do not think you made any reference to the social security card as an identifier; did you?

Mr. SVAHN. No, I didn't. I would be glad to talk about it.

Chairman PICKLE. Isn't that one of the listed items that we were supposed to talk about today?

I appreciate your being kind of gracious enough to talk about it, but this is one of the announced purposes for this hearing.

Let me also say to you, Mr. Commissioner, these are three areas of extreme importance, and we did not get your testimony on our committee until about 5 minutes before we were supposed to start this morning.

You have summarized it in a very brief manner, and it seems to me that this is a very broad-brush presentation of three vitally important areas.

Let me ask you first, if you would make some comment about the social security card as an identifier. This is an extremely important matter that faces this committee and the American people.

Mr. SVAHN. I apologize to the chairman and to the committee for not covering that. I was trying to be extremely brief in the interest of time, but I would be pleased to discuss the use of the social security card as an identifier.

We have, as you are aware, made a tentative decision to print social security cards on a different type of card stock, and the effect of that, on using the social security card as an identification card, will be just about nil.

The social security card and the number are not identifiers. They were never intended to be, and they cannot be used as an identifier.

The social security number is a nonsecure number, and later on this afternoon, you will hear the Inspector General of the Department of Health and Human Services talk about the security of the social security number.

The social security number has been issued to some 270 million Americans and aliens.

Up until 1972, there was no requirement that you prove who you say you are in order to get a social security number, and so the only time you had to show that you were, in fact, who you were, and that you were born on the date that you said you were, was when you came in to collect benefits.

There was, in effect, no requirement that people identify themselves, just that they fill out a request for a social security number and sign it.

Because of fraud and abuse in other programs, and because the number has been accepted throughout the country almost as an identifying number, we have been tightening up. We now require new applicants for social security numbers to show proof of identity. But the vast majority of Americans who have numbers have never had to show proof of identity to get them.

The Social Security Administration uses the social security card for one purpose, and only one purpose, and that is to notify applicants of the number that has been assigned to them.

We don't even ask to see the card when you come in to apply for benefits. We ask for your number and for you to prove that you are that person. We have really no use for the card.

As far as the card and the number being used for identification purposes is concerned, we have never intended it to be used for that, and we would not encourage that it be used for identification purposes. If you look at the legislative history, we have been back and forth on what it can and can't be used for.

Many educational systems, many State and drivers' license systems use the social security number. But it is a nonsecure number.

Chairman PICKLE. I guess a good place to start might be to review with you the fact that you have announced a policy in the last 30 days, that you were going to issue tamper-proof cards for new beneficiaries.

Does that not set into effect the possibility that it could lead to an identifier?

In the first place, whether that does or does not lead us in that direction, it amounts to a very serious problem facing the people of this country, and you announced that you were going to just issue new tamper-proof cards.

Are they being issued now?

Mr. SVAHN. They are not, Mr. Chairman.

Chairman PICKLE. Can you show us a tamper-proof card and the advantages of it? Do you have one with you?

Mr. SVAHN. No, I do not. We have looked at some designs that have been done by the Bureau of Engraving and Printing, but we have made no decision as to which design.

Chairman PICKLE. How would you announce that as a policy, sir, when you don't have a design, and you are now recommending against it, in effect?

Mr. SVAHN. I did not say I was recommending against issuing a social security card on bank note paper, which is the announcement that was made. I believe that announcement was made by a Senator rather than by the administration.

Chairman PICKLE. The Senator was simply saying that the administration had agreed.

Mr. SVAHN. That is true. We had proposed that we raise that issue in determining what we were going to do in fiscal year 1984.

Apparently at that time, and I was not there and privy to the discussions, there was a considerable amount of discussion about trying to pass legislation to require us to issue a counterfeit-proof social security card.

We instead agreed that we were going to change the paper that the card is issued on. At the present time the card is only issued on just plain paper, in essence, and we have indicated that we were going to go to a more durable, and in the same process, more tamper-proof card.

I emphasize that this is not something that will help the Social Security Administration, other than the fact that perhaps it will make cards more durable, and people won't come in and ask for more duplicate cards. Something you have to recognize is that, de facto, the social security number has become a number that is used by many, many organizations and by many, many different government programs. And because of the fact that Congress last year made it a felony to counterfeit or alter or deal in social security cards, we felt it was important for us to issue a more durable card.

Chairman PICKLE. If you issue a tamper-proof card, a new social security card for the new applicants, will that cause any confusion on the use of that card as compared to those cards that are already published?

Mr. SVAHN. I don't know that it will cause any confusion. The card has changed a little bit over the years. However, if we issue a new card to everyone—and it was one of the reasons that I was opposed to that idea last year in conference, as the chairman knows—if we were to issue a new card, then everyone would have to come in and get one, and that would be a very expensive proposition. As I said earlier, you still could not use the card as a secure identifier; and the new one we're talking about now won't make much difference as an identifier either, because it would just be issued to new applicants and as a replacement card.

You would still have the old cards as perfectly valid—not identifiers—social security cards.

Chairman PICKLE. You have stated changing to the tamper-proof card does not help the social security program.

Mr. SVAHN. That is correct.

Chairman PICKLE. The system is to start for new applicants. This process will be stretched out over a period of 50, 60, 70 years, or more.

Mr. SVAHN. That is correct.

Chairman PICKLE. The new cards, the process won't be complete until 75 years from now?

Mr. SVAHN. That is correct, Mr. Chairman.

Chairman PICKLE. That is kind of a stunning thought, to realize that we are going to change over and stretch it out that many years.

What is the cost of issuing a tamper-proof card?

Mr. SVAHN. The cost of issuing it, the way we are proposing to do it, would be somewhere between $500,000 to $1,000,000 a year.

The incremental cost——

Chairman PICKLE. For new applicants?

Mr. SVAHN. And replacement cards. That is 12 or 14 million cards a year. The current cost of the card is about a penny apiece, and this would raise the cost by 2 to 3½ cents apiece.

Chairman PICKLE. If you were to issue everybody a new tamper-proof card, issue new ones to them, what would that cost?

Mr. SVAHN. That would cost substantially more. You are talking close to $1 billion to do that.

I might say, Mr. Chairman——

Chairman PICKLE. A billion?

Mr. SVAHN. A billion, with a "b".

Chairman PICKLE. A billion?

Mr. SVAHN. Yes.

Chairman PICKLE. If you start this next year for new applicants, it costs $500,000?

Mr. SVAHN. $500,000 to $1 million.

I would be very much opposed to saying we were going to issue these social security cards to all Americans. In addition to the considerable cost, more than $1 billion, we would be saying, then, in fact, this was going to become a national identity card, and we oppose that.

Chairman PICKLE. Is it your plan to proceed now to issue social security tamper-proof cards for the new persons, the new applicants, and, if so, when; or are you just studying how it would work?

Mr. SVAHN. It is our intention at the present time, Mr. Chairman, to issue a more durable and less easy to duplicate or to counterfeit card beginning sometime in 1983.

We have not made a decision as to what type of card, what it will look like, how it will be issued. We have been negotiating with the Bureau of Printing and Engraving about their doing the development of the card.

We have not made those decisions yet. We have planned to do it sometime in 1983.

Chairman PICKLE. Well, I would hope, although good arguments can be made for having a more durable, tamper-proof card, I would hope that the administration would look into all aspects of this new issuance, because we ought to be certain of the direction in which we are going.

Everybody that has a social security card is going to want a new card, and if you start issuing a new pair of shoes to somebody in the troop, everybody else will want a new pair of shoes.

If a normal citizen writes in and says he wants a new tamper-proof card, what do you do?

Mr. SVAHN. We do issue replacement cards when the person comes into the office and says he or she has lost the original card.

Chairman PICKLE. Just the person who is at home, a worker or a housewife, they decide they want one, too. Will you issue them one?

Mr. SVAHN. No, not unless the other card has been destroyed or lost.

Chairman PICKLE. Do you think a lot of people will come in and be asking for these new cards?

Mr. SVAHN. I am sorry, Mr. Chairman.

Chairman PICKLE. Do you think a lot of people will come in or write in and say they want one of those tamper-proof cards, too?

Mr. SVAHN. That is definitely a concern, and it bothers me that people will do it. But to the extent people think it is becoming an identification card, that will happen.

Persons can write in from a foreign country and say they want one and we will issue cards to them, too.

As long as we continue to accept any card or as long as any card continues to be accepted—and we will make assurances this is not a national identity card, just a more durable card—we will be working to prevent people from doing that.

Chairman PICKLE. The cost of this is rather small, $500,000 to $1,000,000; is that in your budget? Is that a budgetary concern of yours?

Mr. SVAHN. That was something we were proposing in the budget cycle.

I know that you have a concern that this came out prematurely, and it had not had a full hearing. I can assure the committee and the chairman that it was our intention to give it a full hearing.

Chairman PICKLE. I am not going to touch on the question of debt collection or the posting of wages.

Before I leave the subject and yield to other members of the committee, I would suggest to the Social Security Administration that you submit to the committee and the other body the plan you would have to handle the new issuance of tamper-proof cards. I intend to submit to you a series of questions and concerns that we have.

I share with you the feeling that if this new approach will lead to or give the impression that we are establishing that card as a national identifier, it would create grave concern with me. We would be embarking on the wrong course, and if we started issuing tamper-proof cards we may well move in that direction.

Before we move in that direction, I would think you would proceed carefully, and we would like to share with you in the planning of this rather than you just announce a new policy of the administration by virtue of a conversation you had with a member of the other body.

If you could give us your complete plans, how you hope to put this into effect and when, we would appreciate it.

Mr. SVAHN. I would be pleased to, Mr. Chairman.

Chairman PICKLE. Mr. Heftel.

Mr. HEFTEL. Mr. Chairman, I will pause to compliment the Commissioner on his brevity, and it will give us the opportunity for more exchange between members of the panel and yourself.

I would like to focus on the so-called bad debt collection, because of an overriding concern I have for what happens when any establishment, business, or individual is associated in some way with collection practices of collection agencies over a period of time.

It is my experience that a business will do everything it can to avoid turning an account over to a collection agency, because you could almost write off forevermore any positive association with any client or customers exposed to the practices of commercial collection agencies.

There may be a reason for such agencies, and their practices may be what are needed in their business, but when you are dealing with something as sensitive as the social security, which in addition to being sensitive, deals primarily with people of advanced age or who suffer from a disability.

It is an awesome thing you do, and the consequences, because of just the way the media can report them, could be pretty devastating, I would think.

And the other part of my concern is the lack of knowledge about the delinquencies, however you want to term them.

We are dealing with people who use the system to their advantage, to the detriment of the overall system, and may have done so illegally.

Are we dealing overwhelmingly, for instance, with people of modest means who for inadvertence or reasons other than premeditation and fraud were overpaid, overpaid in modest amounts? At the same time, what would it have cost the social security system to have prevented the errors in occurring that ever occurred in the first place.

If we have a multibillion dollar system that has a 1 percent error factor, before we correct the error factor, what does it cost, and are we better off tolerating it?

I think that what we ought to be focusing on is a way to stop the floating of these trial balloons that work to the detriment of all of us and to have constructive dialog on such issues at an earlier stage. It sounds as though we are doing something, and something that could be detrimental. Would you care to comment?

Mr. SVAHN. Let me make a couple of comments, Mr. Heftel.

The majority of the debt that is owed to social security—I indicated in my opening comments, as of June 1982 that amount was $2.2 billion—is due to the beneficiaries' failure to report changes in circumstances or earnings which would affect benefit amounts.

I am concerned about our ability to prevent debt. I don't want to be in the debt collection business, but I feel we owe a responsibility to the public to bring back as much of that $2.2 billion as we can reasonably do. We need a balanced program that recognizes that, by and large, you are talking about persons of modest means. There are certainly exceptions, however. I see in the newspaper this morning that the State of Massachusetts has come up with something like 50,000 people who are receiving assistance and have excess assets up to $100,000 to $200,000. I think we can only be responsible if we eliminate that.

Now, you mentioned using a debt collection agency or organization, and that has been a little bit overblown. We had planned on doing a couple of tests with private organizations, primarily for people who are not on social security rolls, but who are persons who absolutely refuse to come into our office and respond to our inquiries about the money that they owe us under their previous status on our rolls.

In the main, those are former students who stopped going to school and were out working but continued to be paid social security benefits.

I am very, very leery about the use of outside collection agencies, and I can assure you that any test of that will be closely monitored and will have strings attached to assure that we don't get into problems such as the ones that you have cited.

What does it cost to collect this money? Even in the early stages, we are showing a $4 to $5 return for each dollar invested in the effort.

My goal is to get our systems' capability changed, and to change our procedures, to the extent that we can, to prevent the debt from happening in the first place, and to work ourselves out of the business of collecting debt.

Mr. **Heftel**. I was concerned with not the cost of collecting, but the cost of eliminating the margin of error you now have.

You have got a 1-percent margin of error. My question, in effect, was, is that margin of error going to be the best you do unless you start to expend at accelerated rates a considerable portion of what you are losing because of what it entails to eliminate that last 1 percent?

In other words, if I were a salesman I might think I can achieve another 1 percent of sales, but when I analyze the real cost of doing it, that last 1 percent of sales is not really cost-effective. We should be careful not to panic over the fact that there is a margin of error which sounds big until you compare it to the total, and then it becomes much smaller.

I am also concerned that at a time when the real problem of the social security system is the fact that we have been giving the public more benefits than the system can afford—and have been unwilling to increase the cost of the system to the public to take care of those increased benefits—that the things we are talking about today can almost be distractions from the real issues that we do not want to talk about. It is almost easier, in any way about any problem in government, to find something you can focus on that sounds like fraud and abuse, and that sort of thing. So I have a two-fold concern.

Are we doing this because it is easier than focusing on the real problem, which we haven't got the courage to face, or can we really eliminate that last margin of error in a manner that is also financially sound?

Mr. **Svahn**. Well, I wouldn't want the committee, or you, Mr. Heftel, to think that I am ducking the big issue of social security.

Mr. **Heftel**. No, I think we are ducking the big issue; not you. The big issue is not being ducked by you, but it is being ducked by the administration, or Congress, or both.

Mr. **Svahn**. Thank you. There are a number of administrative areas that we have been focusing on in social security. Debt management is just one of those.

As I said, I am very concerned about annual wage reporting. I am very concerned about our having office space on the second floor of buildings without elevators, and about annual recomputation of benefits.

I think that the error rate, as you call it, is greater than 1 percent, and the amount of money that I indicated was owed to us in June, $2.2 billion, is a rolling amount of money.

Now, this year we will collect $1 billion back, but we still have over $2 billion in debt out there.

We are working to modernize our systems and procedures so that we don't create that debt to start with, and in the long range, that is the way we have to go in order to be able to develop public confidence.

I agree with you that we tend to focus too much on small things. I am not saying that $2 billion is a small thing, but in an annual outlay of $150 billion, it is a small percentage, and that is the same for the percentage of people we pay who are overseas. They are a "small thing," but they cause a great credibility gap for the program.

We have to address each one of those as they arise.

Mr. HEFTEL. I thank you very much, and I want to quickly observe, nothing would equal the credibility problem that you would have with the private collectors.

Mr. Chairman, I would be glad to yield.

Chairman PICKLE. I wanted to ask the Commissioner, your response to a copy of a letter that was sent from the Arlington, Va., office here to an individual regarding the debt collection item.

The letter says, this is from the Social Security Administration offices, we are contacting all people that have been paid, or overpaid, social security benefits.

Congress and the administration are proposing to start charging interest on all overpayment accounts and taking action to send the delinquent accounts to a collection agency. Is this a procedure that you have approved? Is this a correct statement of the facts?

Mr. SVAHN. I am aware of the letter that you are talking about, but it was not a procedure that we have approved. We have seen several instances of letters like this that are developed by a local office, and the local office sends them out to people in order to collect debt.

We have changed those, and we have also issued instructions that local offices are not to develop their own letters, because they don't have the information.

We have had local offices send out letters in debt collection, that were absolutely incorrect, that misstated the law, or were threatening, and we have instructed them not to do this.

Chairman PICKLE. It is appalling that a local office has said that Congress is proposing to start charging interest.

To the extent that you can, we ought to be able to send a letter stating what kind of letter they should send out.

Mr. SVAHN. With some 65,000 people out there, there are going to be people who exceed their authority.

Chairman PICKLE. I understand that, but apparently they have not had any real guidelines, so they sit down and write their letter. Is that incorrect?

Mr. **Svahn**. Oh, no; they have guidelines. Last month, an instruction was sent out to all of our field offices, saying, basically, that during the past several weeks, a number of unapproved letters were brought to light. They were found to contain unacceptable language, and the instruction orders the field offices to stop using them.

Mr. **Heftel**. Mr. Chairman, we should focus on something that is almost as important as the content of this letter. We are acting as though this is something off in the field somewhere from the home office.

This is a letter from Arlington, Va. This is something right under all of our noses.

This is where they would get the feeling of exactly what we are thinking and doing.

They are right here.

There is more to this than just what has been said so far, because this is too close to where we are, right under our thumb, and if they feel this way in the office in Arlington, there has to be something happening here that gives credence to this, I would think.

Mr. **Svahn**. That office in Arlington, Va., is no closer to me than the branch office we have in Waipahu, Hawaii.

Organizationally, that office is in a structure, and I would have no reason to know that that office gets any better information than the Honolulu District Office.

Mr. **Heftel**. If you are in Washington, you know the media here report what Congress and the administration do in a way that is so different from what happens in the media in Hawaii, that it is like two different countries.

There has to be some move within the administration, the people in Congress; something is happening here that is giving credibility to a letter like this.

We ought to be concerned that we have reached the point that somebody working in the Arlington office has the feeling that there is our policy here.

It is something to be seriously concerned about, sir.

Mr. **Svahn**. I am definitely concerned about it, Mr. Heftel, but I have to honestly say I cannot allow our employees to react and run programs by what they read in the media.

Our instructions are clear to the field. They are to use approved language. They are to be sensitive. They are to continue the waiver policy, and, as I said, the amount of waivers that we grant on cases where we can waive has not changed.

We have not decreased that. It has been right around 80 percent, which is what it was 2 years ago, and it is that now.

Mr. **Heftel**. Thank you very much.

Chairman **Pickle**. I might say to the committee, the lighting system with regards to the 5-minute limitation is not working.

I wish to remind the committee that the Commissioner has to leave within the next 15 to 20 minutes.

Mr. Gradison.

Mr. **Gradison**. No questions.

Chairman **Pickle**. Mr. Archer.

Mr. **Archer**. Thank you, Mr. Chairman.

Just briefly, and you mentioned this sort of as a sidelight to your comments to Mr. Heftel, it should be noted for the record that the entire integrity and credibility of the social security system depends on people having confidence in the fact that people who are overpaid do reimburse the fund.

The fund is short today. We are on the verge of not having enough money to pay the legitimate benefits. If those people who are not entitled to it get money out of the system and do not pay it back, it undermines the whole system.

You did allude to that just briefly, but the record should show that.

Going back to the question of using the social security card as an identifier, as I understand it, you are basically speaking for the Social Security Commissioner and saying you don't really need a tamper-proof card in order to do your business in social security, but is that necessarily the administration's position relative to the entire operation of government?

Mr. **Svahn**. You are correct, Mr. Archer, that we in social security do not need a social security card, period.

We only use it to notify people of their social security number.

The social security number is used in a number of Government programs. The military, for example, uses the social security number now as the military service number.

Mr. **Archer**. The IRS uses it.

Mr. **Svahn**. Yes, and as those uses come forward—the military in 1968, and the IRS mandated it in 1972—as those uses are increased, it becomes more important to have a number that is more secure.

I can understand that; but that is not social security's position.

I am sure the Commissioner of the IRS would like to tell you he knew that each social security number was only issued to one person, and he knew which person had each number.

That is not the case. We have one number that was used by 40,000 Americans. We have 14 numbers in existence that have thousands of Americans who report in on them. That one number, the so-called Woolworth number, began to be used in 1938, and last year we had 150 people still using it. The social security number is not a secure number.

A number of other programs would like to have it that way, but I really can't speak for the administration and say that the administration would like it secure.

The Congress, itself, has enacted several statutes, the latest a penalty for misuse of the number, making it a felony. This indicates the card is not secure.

Mr. **Archer**. Are you moving ahead in an effort to purge the system of duplication?

Mr. **Svahn**. I would like to be able to tell you, Mr. Archer, that we are. I really can't say whether we are or not. We do come forward with bad numbers. We have annotated bad numbers. There is some talk about a full purge of the system, but I really could not answer that question.

I would like to check on that and submit an answer for the record.

[The information follows:]

As a result of a previous SSN study, we are in the process of cleaning up all missing and discrepant records that resulted from the conversion of SSA's old paper SSN files to the current electronic system. This activity should be completed during 1983.

During both the cleanup operations and our regular processing activity, we may become aware of situations in which one individual has more than one SSN. These multiple numbers are not purged; however, the records are cross-referred so that the numberholder receives full credit for all earnings under each number and so that the numbers cannot inadvertently or deliberately be misused.

We are also developing a special indicator system which will allow us to annotate the electronic SSN records in a variety of special situations, including detection of fraud involving the SSN, use of false/fictitious identifying information, suspected use of the number by one or more persons other than the true numberholder, use of the number by an illegal alien, etc.

Mr. **Archer**. You seem to believe that the printing of the cards on bank note paper, which has been heralded in the press, might not really be counterfeit proof or tamper proof.

We keep talking about a tamper-proof card and leading the public to believe that this new process of printing and bank note paper is going to be tamper proof and counterfeit proof, and yet I was led to believe from your testimony that that is really not the case.

Would you like to comment on that?

Mr. **Svahn**. Mr. Archer, it would be more tamper proof, although I understand there is quite an industry in counterfeiting $20 and $100 bills, which are supposed to be counterfeit proof, also.

I think the concern that causes people to think that we ought to publish a counterfeit-proof or tamper-proof social security card will not be met by doing that.

It is going to take many years before everyone has a counterfeit-proof card, but even then, it isn't going to help on the immigration problem, illegal aliens, and that kind of thing. We have illegal aliens today who can buy counterfeit social security cards. Or they can go home or write home and have somebody send a letter to us, and we will issue a real one.

Mr. **Archer**. What would it take to qualify the social security card as an identifier, in your opinion?

Mr. **Svahn**. To make it an effective identifier?

Mr. **Archer**. Yes.

Mr. **Svahn**. I would not want to be involved in that, myself.

It would require calling in every American in the country and having them prove who they are, and I think it would be terrible for us to do that.

Mr. **Archer**. What type of cost would we be undertaking?

Mr. **Svahn**. The costs would be astronomical, because proving who you are is a pretty difficult thing to do. Birth certificates are not secure documents, and we rely heavily on birth certificates as a proof of who you are. You can get any birth certificate you want—and all the States have different systems of notification and different types of registers. It would be a difficult and expensive task, and something we should not do.

Mr. **Archer**. In the range of $5 to $10 billion, or what would you guess?

Mr. **Svahn**. We could get an estimate for you as to what it would cost.

[The information follows:]

We estimate that the cost of reissuing Social Security cards for everyone through SSA's current issuance procedures, but with full personal interviews and presentation of the proofs, of identity, age and citizenship now required in the regulations for all new applicants, would cost $1 billion.

However, as I noted, birth certificates, immigration records and other records that must be used to prove identity are not secure documents. No Social Security card could be considered to be a secure and reliable identification card when the documents upon which it is based are not secure. Recognizing this, we have begun training SSA's field personnel to recognize counterfeit or altered documents. It is very easy, however, for anyone to illegitimately obtain a valid identification document. For example, it is extremely easy for an individual to obtain the birth certificate of a child who died in infancy, and then, using that birth certificate, fraudulently obtain additional proofs of identity.

Therefore, the cost of any effort to make the Social Security card a reliable national identity document would have to include verification that the documents people present to SSA in order to prove their identity not only were not counterfeit, but were also properly issued. This, of course, would make the cost extremely large because it would require field verification that all documents had been properly issued. We have no data or experience on which to base such an estimate.

In addition to the direct expense involved, requiring new proof of age, identity and citizenship from all Social Security number applicants would severely overload all State and local record custodians as there would be a large number of requests for the evidence in these records. This would result in delays in people being able to get the documentary evidence that would have to be presented to be issued the new card—and possibly in delays in filing normal requests for vital records such as original birth certificates.

Mr. SHANNON [presiding]. The gentleman's time has expired.

Mr. ARCHER. Thank you very much.

Mr. SHANNON. I am temporarily chairman for the next minute and a half, and let me ask a couple of quick questions, if I might.

We have some testimony concerning certain tactics which you have been following in some parts of the country in collecting overpayments, and I would like to know whether any of these tactics are officially endorsed or condoned by the Social Security Administration.

One of the things we have heard of is unannounced home visits by debt collectors for payments.

Mr. SVAHN. In some of our debt collection centers they do try to contact individuals personally, but that only occurs after the person has refused or failed to respond to a series of letters and phone calls. In such instances, they do try to make personal contact with the individual.

Mr. SHANNON. It would never happen unil a number of letters?

Mr. SVAHN. Oh, absolutely.

Mr. SABATINI. Mr. Shannon, those contacts are not to collect money, per se.

Those contacts are to get in touch with the individual to resolve the issue as to whether or not an overpayment exists, and also to make sure that the person understands the cause of the overpayment and what his rights are.

Mr. SHANNON. Thank you.

Mr. SVAHN. We want to make sure that the person exists, also.

Mr. SHANNON. We have heard of cases where elderly women have been encouraged to get jobs to help with the overpayment. Is that a policy?

Mr. SVAHN. That is not a policy of the organization. Personally I would encourage anyone who is capable and can find employment to work, because I think work is a good thing.

But, no, it is not the policy of the agency to force people to go out and get jobs.

Mr. **Shannon**. Do you have any standards for when this would be an appropriate thing to suggest, and when it wouldn't be?

Mr. **Svahn**. To encourage elderly people to get jobs? No, I don't believe we have any standards on that at all.

I would not have any idea why anyone would do that, but, as I said earlier, Mr. Shannon——

Mr. **Shannon**. If it is being done, then is it a problem?

Mr. **Svahn**. In each instance where we identify a problem, we stop it. I know we have had some problems in your State because of some overzealous employees who have done some things they should not have done, and I would hope that by now they have all been told that.

Mr. **Shannon**. What sorts of things?

Mr. **Svahn**. In particular, in Massachusetts we had an office sending out letters which, one, probably exceeded good judgment in terms of content, and, two, that exceeded the law.

Mr. **Shannon**. Which office was that?

Mr. **Svahn**. I don't recall the office, Mr. Shannon.

Mr. **Shannon**. What did the letter suggest?

Mr. **Svahn**. That we could automatically offset a title II check in order to collect an SSI overpayment.

Mr. **Shannon**. How about threats of imposing interest and penalty charges if the overpayment is not paid? Mr. Pickle referred to this.

Mr. **Svahn**. The letter that Mr. Pickle read from was incorrect and not an approved letter from the Social Security Administration.

We are proposing that overpayments be repaid with interest.

Also, by the way, I think that we ought to legally pay interest on underpayments that we have caused. We should do this in a balanced way.

Mr. **Shannon**. Let me ask this question, Mr. Svahn.

You have outlined generally what your standards are in your testimony for collection of overpayments, and they make good sense.

I would like to know how specifically do you make efforts to prescribe certain practices that you become aware of in one part of the country. You speak of practices that took place in an office in Massachusetts.

Once you become aware of those practices taking place in an office, you make an effort to inform all of the offices that they should not do these things?

Mr. **Svahn**. We most certainly do, and anytime we come into contact with something that is a prohibited practice, we notify them. You have to walk a fine line.

Mr. **Shannon**. Are there specific memorandums sent to the offices concerning these practices?

Mr. **Svahn**. Yes.

Mr. **Shannon**. Could you provide them to the committee?

Mr. **Svahn**. Certainly.

[The information follows:]

[Memorandum]

MAY 28, 1982.

From: Associate Commissioner for Operational Policy and Procedures.
Subject: Debt Collection Notices and Correspondence—ACTION.
To: See below (unnumbered).

It has come to my attention that some operational components are developing and using debt collection notices and correspondence which have not been approved by my office. While I am encouraged by your staffs' ingenuity and resourcefulness in experimenting with such activity, I must remind you that developing beneficiary notices and correspondence has significant legal implications which must be addressed before approval for use by operational components. Factors such as pertinent laws and regulations, court decisions, appeal rights, and equal treatment of individuals must be considered whenever new notices and correspondence are developed. Additionally, ad hoc development of notices and correspondence results in duplication of effort necessary for preparation and printing in each of the various operational components involved in the activity. Therefore, please remind your staffs of the current policy requiring approval through my office of any debt collection notices or correspondence which they may create to facilitate collections and request that they discontinue use of any unapproved notices or correspondence.

For your information, the notice samples and draft language for correspondence in the Program Operations Manual System are the sources for all beneficiary correspondence. If your staffs encounter situations requiring a new notice, they should identify the situation and forward a request for the new notice, along with any draft language, to my office for approval. Despite our concern for enhanced debt collections, we have not relaxed the policy requiring use of approved notices and correspondence.

If your staffs have any questions or wish to discuss this, they may call Gerry Bunker, Office of Insurance Programs, OOPP, on FTS 934-2226.

SANDY CRANK.

Addressees: All Regional Commissioners, All SSAPSC Directors, DIO and ODO.

[Telegraphic Message]

To: All SSA Regional Commissioners; All Assistant Regional Commissioners, Programs; All Assistant Regional Commissioners, Field Operations; All Assistant Regional Commissioners, Management and Budget; All area Directors; All SSADOS/SSABOS/SSATSCS; All PSCS/DIO/ODO.
From: SSA Office of Operational Policy and Procedures.
Subject: Suggested Responses to Public Inquiries on SSI Backlogged Debt Notices—Information.

Central office components and some regional offices recently have received a number of inquiries from legal aid groups and other sources regarding the notices used for the backlogged SSI debt releases. As a result of recent publicity given to SSA's debt management initiatives, we expect that the number of inquiries may increase. To help you respond to these inquiries, and to promote consistent responses, we are providing a list of the issues most likely to arise and the suggested responses. Since it appears that many of these issues will be litigated, the responses to these inquiries must be carefully drafted. Should you receive any questions which are not answered by these examples please contact your regional office. Regional offices may contact the Office of Operational Policy and Procedures, Office of Insurance Programs, Division of Benefit Continuity, Reporting and Recovery Branch on FTS 934-6211 for any assistance needed.

ISSUE 1

What group of debtors were intended to receive the notice suggesting adjustment of SSA benefits?

RESPONSE

The SSI notice of ACTION to recover overpayments, with the return tear off portion for recipients to sign (see attachment 1 to see below SSA-OFO-OFS-82-247, 1982), was designed specifically for the backlogged SSI debt releases, a one-time project. This notice was designed for people overpaid in the SSI program who are no longer receiving SSI payments but are receiving social security benefits. These people had previously received an initial notice of overpayment detailing the cause of overpayment and their rights to appeal the overpayment and to request waiver of repayment.

ISSUE 2

Why did some overpayment notices imply that withholding title II benefits is mandatory?

RESPONSE

SSA approved notices do not imply that withholding of social security benefits to recover a supplemental security income benefit is mandatory or a requirement for receiving continuing social security benefits. SSA has become aware that a few local offices have devised and distributed notices which incorrectly imply such action is mandatory. As SSA has become aware of these situations, the offices have been instructed to discontinue the use of these notices. SSA has also recently notified all field offices that only SSA approved notices may be used when notifying debtors of overpayments or methods of repaying debts.

The notices that caused concern were intended only to inform the beneficiary that he or she has the option of using social security benefits to pay back the SSI overpayment. It has never been the Social Security Administration's policy to coerce beneficiaries into agreeing to this type of recovery. If the beneficiary does not wish to have his or her social security benefit adjusted, adjustment will not occur. Refusal will have no effect on the payment of the social security benefits. Of course, the beneficiary is still responsible for repayment of the overpayment.

ISSUE 3

Why were the overpaid persons not notified of their rights to appeal and to request waiver in the notice?

RESPONSE

The people who received the notice were advised of their rights to appeal the overpayment determination and to request waiver of repayment at the time of the overpayment determination.

ISSUE 4

Is there a statutory authority for SSA to suggest and implement recovery of SSI overpayments from social security benefits?

RESPONSE

The regulations (20 CFR section 416.570) provide for SSI overpayments to be collected from social security benefits. However, this may not be done without a request from the individual from whom the refund is sought. The notices merely inform the individuals of the option of requesting this method of refund and provide a request form.

ISSUE 5

Is there a limit on how far back SSA can go in recovering overpayments by administrative adjustment of benefits?

RESPONSE

There is no statute of limitations for the recovery of overpayments by administrative adjustment of benefits. Accordingly, there is no time limit on recovery from future benefits or our requests for refunds.

SANDY CRANK, *Associate Commissioner.*

Chairman **PICKLE**. Commissioner, before you go, let me ask you two or three questions.

We wish to have you come back after you finish over on the other side.

We may try to go through the lunch period until 1 or 2 this afternoon to try to finish the hearings rather than have lunch and come back.

Mr. SVAHN. Mr. Simmons and Mr. Sabatini will be back, Mr. Chairman. I have to catch an airplane, Mr. Chairman.

Chairman PICKLE. On the subject of debt collection, you appeared before our committee last year, and you made certain assertions and observations.

The first question is with respect to the focus that you were going to use to speed up the collection of payments and at that time a year ago you said you were going to look at changing the payment policy from requesting repayment at the rate of 25 percent of the monthly benefit to 100 percent, and requiring full repayment within 3 years.

Have you done that? Is that your approach now?

Mr. SVAHN. Yes, it is, Mr. Chairman. We do request, once an overpayment is identified, that the individual pay it all back. And if the individual is unable, we work out a repayment schedule. We like to have it repaid within 3 years.

Chairman PICKLE. You have changed your policy to guide them to that?

Mr. SVAHN. Yes.

Chairman PICKLE. With respect to using the third-party or outside collection agencies, you said that you were going to have a more aggressive and improved information system to try to collect this money.

There is a question about whether the Social Security Administration has the legal authority to use outside collection agencies.

Do you consider that you have the legal authority to use outside collection agencies?

Mr. SVAHN. Yes, I do, Mr. Chairman.

We are going to do that very, very carefully. We are planning just two test sites at the present time.

I am concerned about the use of outside organizations, and we are going to approach it very, very carefully.

Mr. SABATINI. Mr. Chairman, our plans with regard to the use of private sector collection agencies are such that it is our intent that the primary responsibility for the collection of debts is, and will continue to be, the responsibility of the agency.

We want to utilize the services of the private sector collection agencies in a couple of ways.

One is that we have significant numbers of overpayments that we have difficulty in collecting because we cannot locate the individual. The private collection services have developed certain expertise in skip-tracing.

We would like to be able to use them as a tool to help locate these people.

Chairman PICKLE. You testified a year ago last October that you were going to set up a pilot project or two; I assume within that time, that has been done.

Do you have a program underway now?

Mr. SABATINI. No, we don't.

Chairman PICKLE. Well, what is the delay? Why haven't you still done it?

Mr. SABATINI. Before we could embark on any pilot, we had to make sure that we complied with all of the requirements of the Privacy Act and published adequate notices that would clearly define how we planned on using them and what we would be doing with collection agencies.

Chairman PICKLE. Have you done that?

Mr. SABATINI. We published an initial notice and are now in the process of getting ready to republish it.

Chairman PICKLE. When did you publish the initial notice?

Mr. SABATINI. In January of 1982, and we are revising it to make sure that it is very properly defined and described.

There are very fine limits in terms of how we plan to use this. It is not our intent to utilize the collection agencies to collect debts that we could collect, but there are cases of certain types of hardcore debts, that after we exhaust all of our meaures, there is nothing we can do.

Chairman PICKLE. Do you think you should use a collection agency? Have you decided that you do want to do that?

Mr. SABATINI. I think that there are three areas in which a collection agency might be helpful to us, and I would at least like to explore that potential.

The first one is in terms of utilizing the services of a credit bureau. There are people who are overpaid and are no longer on our rolls—former students are the best example of that—who are now working, earning significant amounts of money and ignoring our attempts to collect.

One of the things we might be able to do is to tell these individuals that we are going to turn their names over to a credit bureau, and that it may have an adverse impact on their credit ratings.

I would like to explore the possibility of using the services of a credit bureau to help us locate individuals that have moved and we cannot get in touch with.

In the third area, there are some examples of hardcore debt where the services of a collection agency might be helpful.

Mr. SVAHN. In answer to your question, Mr. Chairman, we have not made that determination. We want to test it to see. As Mr. Sabatini prefaced the areas he talked about, he said we thought we wanted to look at that.

Chairman PICKLE. It is a troublesome decision. If you use those agencies, do you clearly have that authority, and what protection does the program and the individual have that the Privacy Act would be fully complied with? I don't want a collection agency hounding people and using that information in other ways that would be embarrassing or harmful to that individual. That is one of the risks we run.

In that connection, it is interesting to me, some of the people that we have heard from in the Social Security Administration offices have said that they are embarrassed that they have to harass people. It makes them feel like they are mean and harsh people, and they are uncomfortable in doing this. I get other reports that some other individuals feel at least we are not blinded to the fact that people owe us money. They feel better about going after somebody that is in debt.

Well, I guess there are two sides to it.

A year ago, you testified you though the debt outstanding was about $1.9 billion. Today, you indicated $2.2 billion. What is the figure?

Mr. SVAHN. It is a moving figure, Mr. Chairman; it changes every day.

One of the reasons it is greater today is because we are posting wages, and we are now running the computer runs to recompute benefits and to determine what kinds of overpayments were made, so that there was a big surge this past year in debt being identified. There is a float.

Chairman PICKLE. I could see why there would be a float, and I expect that. Can you give me in general terms, since you have had this underway now a year, how much have you collected during the last year?

Mr. SVAHN. This past year, well, the year ending October 1, 1982, another 7 or 8 days, we will have collected approximately $1 billion in overpayments.

We started out the year with about $1.9 billion owed to us, and as of June of this year, we had $2.2 billion being owed to us, but we will collect about $1 billion in overpayments.

Chairman PICKLE. That is an interesting figure.

If you had $1.9 to start with, and you collected a billion, you have $2.2 billion owed to you now. That is a very large float, isn't it?

Mr. SVAHN. I would like to apologize for a prior comment on the issue of employee feelings in the debt collection area. There have been some isolated instances when I have encountered employees who say they really don't want to be in that business. I am not sure I would make a very good debt collector, or if you would, but the indications that I have had from talking with a lot of employees—and you will probably get some testimony that contradicts this—but the indications that I have had, by and large, are that our employees think it is a perfectly valid exercise and that in order to protect our public credibility, we should be doing it.

Chairman PICKLE. I still find it very perplexing that you started off with a $1.9 billion debt, collect a billion dollars, and start off next year with $2.2 billion.

That is a very large float. Where is the money coming from? From what sources are you making these collections? What type of debt are we collecting?

I would like to look into this further with you, and, before you leave, Commissioner, I have said this three times, as one member of the committee, I request that the Social Security Administration not enter into this tamper-proof card until we have had further determinations of how we are going to handle it, and the answering of a lot of questions that we will submit to you immediately.

It could be within the next day or two.

Mr. SVAHN. Even if we were to move hastily, Mr. Chairman, which we will not, we are a long way off from starting to issue any tamper-proof cards. And, as I indicated before, I will be pleased to submit all of our plans and our schedule for doing that to the committee.

Chairman PICKLE. I would ask that you do submit your plans and also remind you that this is a policy matter that the Congress of the United States might want to express itself on.

Mr. SVAHN. I am also pleased to honor the Chairman's request, and I look forward to working with you in the future on this issue and on all others, and I apologize for having to leave now.

Chairman PICKLE. I am sorry you have to leave, because we have two or three Members of Congress who are going to testify.

One said in his district, wages for 3 years ago had not been posted.

Mr. SVAHN. Are you talking about the California Congressman?

Chairman PICKLE. Particularly, I am referring to Mr. Panetta of California.

He finds this extremely hard to understand, and all of us do.

Can you tell me what you expect? Are you going to be able to speed this up—more equipment; personnel?

Mr. SVAHN. Our problem is that we switched from quarterly to annual reporting in 1978—without the systems and backup to be able to do it—and the change just overwhelmed the Social Security Administration.

Chairman PICKLE. Are you coming out from under it?

Mr. SVAHN. Yes. As part of our systems modernization plan, during this next fiscal year, we will revamp the system that works with annual wage reporting. The bad years were 1978 and 1979, and there are still a number of large organizations that, because of computer problems, format problems on tapes, and other things, have not had their employees' wages posted.

The one that Mr. Panetta was most concerned about was a newspaper in Watsonville, Calif. Their wages will be posted in October of 1982. That problem did not occur because of something the Social Security Administration did.

The company which reported wages for the newspaper had a problem in formatting the records for employees, and it has just now been worked out. They have sent the new tapes to us, and those wages will be posted during October of this year.

Chairman PICKLE. It is unacceptable to me that wages have not been posted for 3 or 4 years.

If the people of America see that wages are not being posted, the credibility of the entire program is at issue, and whatever it takes, I would think that we must correct that as fast as is humanly possible. There can be no substitute for anything other than great haste and speed in correcting that.

Mr. SVAHN. I completely agree, Mr. Chairman.

Chairman PICKLE. We will excuse you, Mr. Commissioner.

We have two key members of our committee who have come in, but perhaps they will be able to talk with you after lunch.

[The following was submitted for the record:]

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, D.C., October 8, 1982.

Hon. JOHN A. SVAHN,
Commissioner, Social Security Administration, Department of Health and Human Services, Hubert H. Humphrey Building, Washington, D.C.

DEAR JACK: As a follow-up to our September 23, 1982 oversight hearings, I am submitting the enclosed questions to be answered for the record as agreed upon in the hearing. The questions cover debt collection practices, tamper-proof social security cards, and annual wage reporting. Your immediate attention would be appreciated.

Thank you for taking time out of your hectic schedule to appear before the Subcommittee.

With best wishes, I am

Sincerely,

J. J. Pickle, *Chairman.*

Enclosure.

The Commissioner of Social Security,
Baltimore, Md., February 1, 1983.

Hon. J. J. Pickle,
Chairman, Subcommittee on Social Security, Committee on Ways and Means, House of Representatives, Washington, D.C.

Dear Mr. Pickle: Enclosed are responses to your questions submitted subsequent to the Subcommittee on Social Security's September 23 hearing on oversight of Social Security.

If I can be of further assistance, please let me know.

Sincerely,

John A. Svahn.

Enclosure.

DEBT COLLECTION

Question. What is the current figure for accumulated debt owed SSA—does the $2.2 billion used in recent SSA testimony represent new debt during fiscal year 1982 as well as backlogged debt?

Answer. The current figure for debt owed SSA is $2.2 billion as of June 30, 1982. This figure includes debt owed SSA under the OASDI, SSI and black lung programs. It also represents new debt in fiscal year 1982 as well as backlogged debt.

Question. What is included in the fiscal year 1983 President's budget (either in the base or as a separate item—please specify where the number could be found) as an estimate of expected collections?

Answer. The President's fiscal year 1983 budget includes $1,330.1 million in anticipated overpayment collections by SSA. This number can be found on page 239 of HHS's budget submission to the Congress entitled "Justifications of Appropriation Estimates for Committee on Appropriations—Fiscal Year 1983." The following table shows a breakdown of anticipated collections by program:

	Millions
OASI	$828.5
DI	133.4
SSI-Federal Benefits	298.0
Subtotal	1,259.9
SSI-State Supplementation	70.2
Total	1,330.1

These budget figures do not include anticipated collections for the black lung program which are estimated at $1.2 million in fiscal year 1983 and which increase total anticipated collections to $1,331.3 million. Also, the fiscal year 1983 estimate could be subject to revision (due to the time that has elapsed since it was developed) based on fiscal year 1982 actual experience which has just become available.

Question. What is the basis for these estimates?

Answer. The estimates include basic collections ($822.8 million) which reflect the agency's historical debt collection experience (adjusted for current benefit levels and the number of outstanding overpayments) and anticipated collections attributable to our debt collection initiatives ($508.5 million): These initiatives include clearing the backlog of delinquent debt, increased collections as a result of earnings test enforcement operations for fiscal year 1982–83, and offsetting retroactive OASDI benefits by the amount of any SSI overpayments which occurred as a result of SSI benefits paid during the retroactive period (as required by section 501 of P.L. 96–265).

Question. Recent SSA testimony indicates that 47 percent of total debt is SSI overpayments, 35 percent OASI, and 18 percent disability—how much of each of these categories is backlogged overpayment, how much current?

Answer. The total of all of SSA's outstanding overpayments as of June 30, 1982 was $2.192 billion. Of this total, $1.063 billion or 48.5 percent was delinquent. Delinquent overpayments are those on which no repayment has been made for more than 30 days but do not include those for which a final waiver decision is pending. The following table shows delinquent overpayments by program:

Program	Total overpayments		Delinquent overpayments	
	Dollars (in millions)	Percent [1]	Dollars (in millions)	Percent
OASI	760	35	172	16
DI	387	18	163	15
Black lung	21	1	9	1
SSI	1,024	47	719	68
Total	2,192	100	1,063	100

[1] Column does not add to 100 percent due to rounding.

Question. How much can you tell us about the backlogged overpayments—specifically, how much is 4-8 years old, how much within 3 years, and how much less than 1 year?

Answer. The average age of a delinquent overpayment varies with each program. Most of the OASI and DI delinquencies are less than 1 year old, but those in the black lung and SSI programs are predominately 1 year old or more. The table below summarizes the age of delinquent overpayments in dollars as of June 30, 1982:

DELINQUENT OVERPAYMENTS

[In millions of dollars]

Age	OASI	DI	Black lung	SSI	Total
Less than 1 year	132.3	127.2	1.5	172.5	433.5
Within 3 years	39.5	32.6	1.6	388.3	462.0
Over 3 years		3.1	6.0	158.3	167.4
Total	171.8	162.9	9.1	719.1	1,062.9

Question. What were the causes of these overpayments?

Answer. Our present debt collection information system does not provide data on the cause of delinquent overpayments. However, one of the five goals of SSA's debt management plan is to upgrade our information base regarding the characteristics and status of outstanding debt so that we can use this information to both prevent overpayments and improve our debt collection process. We are working on upgrading our ability to collect and analyze information in this area.

Question. In how many of these cases were waivers of repayment allowed?

Answer. Cases in which waivers are allowed are not counted in the delinquent backlog. However, we do not have data on the age of overpayment at the time waiver was granted, because of the current limitations of our overpayment information system. Data on waivers granted without regard to age are provided in the response to question 10.

Question. Are you pursuing collections in cases where waivers were allowed before?

Answer. SSA has never had a policy of pursuing collections in cases where recovery was previously waived, nor has SSA made major changes in recent years in the conditions for waiver. The provisions in the law that govern waiver of recovery is allowed in OASDI cases have not changed since 1968 (1974 for SSI). Minor changes in the OASDI regulations on waiver were made in 1979 (the only significant changes was to provide for a recoupment period of *longer* than 3 years). In the SSI regulations, the only recent change was a clarification made in 1980 describing when one of two tests is applicable to determine whether recovery would defeat the purpose of the program. The guidelines issued to field personnel follow the requirements set out in the law and regulations.

Question. Is there any applicable statute of limitations applicable in such old overpayment cases?

Answer. The Social Security Act does not provide a statute of limitations on recovery of overpayments. There is a 6-year statute of limitations for the filing of a civil suit to collect an overpayment (28 U.S.C. 2415).

Question. What proportion of all overpayments are student benefit cases?

Answer. About 8 percent of the dollar amount of OASDI overpayments in fiscal year 1982 was caused by lack of full time school attendance by student beneficiaries.

Question. Won't these cases taper off quickly as the student benefit is gradually phased out?

Answer. Yes, although we will still have to collect outstanding debts incurred prior to the phase out.

Question. How much of the overpayment activity is concentrated on new collections, and how much on speed-up of existing schedules?

Answer. The President's Budget for fiscal year 1983 included 6,365 work-years and $170 million for SSA's debt management activities. Most of these resources (5,688 work-years and $147 million) will be used for regular workloads including new overpayments. The remainder (677 work-years and $23 million) will be devoted to clearing the delinquent debt backlog. No resources are allocated to the speed-up of existing repayment schedules. Any change in repayment schedules (speed-up or slow down) is handled as part of the regular debt collection workloads. See the response to question for a discussion of speed-up of repayment schedules.

Question. Can you give us a complete breakdown of the overpayment total by type of beneficiary (worker, widow, child, etc.)?

Answer. Because of the current limitations of our overpayment information system, we do not have data on overpayments by type of beneficiary. (We are working to upgrade our information systems in this area.)

Question. What is the rationale for the speed-up of existing collection schedules?

Answer. As noted in our response to question 8, where an overpaid beneficiary states that a 100 percent benefit adjustment would create a financial burden, we will negotiate a repayment schedule appropriate for the individual's situation. There are no plans at this time to renegotiate partial benefit adjustments that were established prior to our policy increasing SSA's initial proposal for reduction from 25 percent to 100 percent of the monthly benefit.

In general, our policy is that the amount of the benefit reduction or the installment payment previously agreed to can be increased in cases where it is reasonable to believe there has been a significant improvement in the person's financial condition. Also, the amount of the benefit reduction or the installment payment previously agreed to can be decreased in cases where a person states his/her financial condition has deteriorated since the original agreement was made. We are preparing an instruction for field offices that will clarify policy on changes in repayment schedules.

We are aware that some field offices have sent letters to overpaid persons asking them about increasing the amount of their monthly installment payment or benefit reduction. The letters sent out in these cases were not approved by central office and their use has been stopped. As stated in our response to question 15, it is our policy for all field offices to submit locally notices to the central office for approval before use.

Question. Are beneficiaries given full opportunity to establish an alternate payment schedule when SSA requests 100 percent repayment?

Answer. Yes. We generally accept an offer to repay the debt by a benefit adjustment of less than 100 percent, or by an extended repayment schedule, as long as the debt is fully repaid within 36 months. However, we also provide for a repayment period of more than 36 months when to do otherwise would create an undue financial hardship for the overpaid person. SSA employees have considerable discretion to take into account the person's financial circumstances and personal situation in arranging for recovery by partial check adjustment where the person is currently receiving benefits from the same program as the overpayment, or in reaching an agreement on installment payments where no benefits are payable. When a person makes a genuine offer to repay his debt, although his requested repayment terms may be less than what are initially proposed, we make every effort to accommodate that person.

Question. We have received reports that thousands of black lung beneficiaries have been cut off of Social Security recently as a result of recent detection of overpayments to them because of the workers' compensation offset. Were these overpayments the fault of these beneficiaries?

Answer. Yes. During a recent enforcement operation, SSA uncovered many cases in which Social Security disability benefits should have been reduced because the disabled worker was also getting Part C black lung benefits. All disabled beneficiaries are advised of their responsibility to notify SSA if they receive disability benefits under certain other public programs, including the Part C black lung program. Since 1974, interviewers in local Social Security offices have been specifically instructed to explain to disability claimants the effect that the receipt of black lung benefits can have on their Social Security disability benefits. The offices located in areas with high concentrations of coal miners are especially alerted to this requirement. In addition, since 1975, the Social Security disability application has stated that beneficiaries must report their receipt of black lung benefits.

Question. Why were their benefits completely suspended?

Answer. As a result of the enforcement operation, SSA reduced current Social Security disability benefits because of the receipt of current Part C black lung payments; some beneficiaries got lower Social Security benefits while, for others, the offset meant that no Social Security benefits were payable. These reductions or suspensions were for current benefits only; SSA did not make any reductions to recover overpayments for past periods. Instead, SSA notified beneficiaries at least 30 days in advance before taking any action to collect the overpayment.

Question. Why weren't they given an opportunity to work out a repayment schedule?

Answer. Beneficiaries were given the opportunity to work out a repayment schedule. Initially, beneficiaries were notified of the reduction in the amount of their current Social Security benefits because of the disability offset provision and the amount they had been overpaid because their Social Security benefits should have been reduced in prior months under the offset provision. They were also told that they could refund the overpayment within 30 days, request a waiver of recovery, or request reconsideration of the overpayment determination within 60 days. The beneficiaries receiving reduced benefits were also advised that if they either did not refund the overpayment, appeal the determination, or request waiver within 30 days, SSA would withhold their full Social Security disability benefits until the overpayment was recovered; however, if an appeal was filed or waiver requested, any action to recover the overpayment would be deferred until a decision had been made on the appeal or waiver request.

Finally, the beneficiaries were urged to contact any Social Security office if withholding the Social Security benefits to recover the overpayment would cause hardship. In such cases the beneficiaries could out a repayment schedule with SSA. Beneficiaries who receive no benefits because of the DI offset were also given an opportunity to arrange for installments in lieu of full refund.

Question. Waiver of Overpayments—What guidelines are DO's and central office following on waiving collection?

Answer. The circumstances under which recovery of an overpayment may be waived are contained in the Social Security Act (section 204(b) for OASDI and section 1631(b) for SSI) and in Federal Regulations (20 CFR 404 (Subpart F) for OASDI and 20 CFR 416 (Subpart E) for SSI). The law states that there shall be no recovery of an overpayment from any person who is without fault if such recovery would defeat the purpose of the Social Security program or would be against equity or good conscience (or, additionally, in SSI cases, impede the efficient administration of the program). SSA guidelines for making waiver determinations are contained in chapter 22 of the Program Operations Manual System (POMS). (This chapter was recently supplied to the committee staff.) A summary of the waiver procedure follows.

To begin the process, the initial notice of overpayment informs the person of his or her right to request a waiver. Once an overpaid person requests a waiver, SSA then determines, based on the facts in the individual case, whether or not the person was without fault in causing the overpayment. If the person is at fault, the law allows us no flexibility: recovery may not be waived. Once it is determined that the person was without fault, the circumstances of the individual case are investigated to determine if recovery would be inequitable or would defeat the purpose of the program. We consider a person's income and resources and normal expenses. In general, we will find that hardship exists if a beneficiary needs his or her full income to meet ordinary living expenses and recovery would reduce his or her assets to a very low point.

Question. Have these guidelines changed since the recent campaign began?

Answer. No.

Question. Must beneficiaries request a waiver or are any automatically granted?

Answer. Generally, an overpaid person must request a waiver. However, "blanket waivers" have been granted in a few exceptional instances. For example, SSA automatically waived recovery of certain Social Security overpayments in 1978 caused by the elimination of the Social Security monthly earnings test.

Question. Are they being adequately informed of their rights to request a waiver?

Answer. Yes. Every initial notice of overpayment contains a written explanation of the statutory requirements for waiver and advises the overpaid person of his or her right to request a waiver. In addition, the notice asks the overpaid person to contact the local Social Security office if her or she has any questions or disagrees with the agency's finding that an overpayment has occurred or disagrees with the amount of the overpayment.

Question. What specific number and percent of all overpayments are waived?

Answer. In fiscal year 1982, SSA identified 1,579,980 OASDI overpayments (representing $1.1 billion) and granted 49,158 OASDI waivers (representing $37.8 million). During the first 9 months of calendar year 1982 (the only available SSI data), 529,100 SSI overpayments were identified (representing $250.9 million), and 34,131 waivers were granted (representing $19.4 million). Since the waivers granted in fiscal year 1982 included cases in which overpayments were identified in prior years as well as in fiscal year 1982, an accurate percentage of all overpayments waived cannot be derived from these figures.

One comparison we can make, however, is between waiver determinations and waivers granted. In fiscal year 1982, 113,342 decisions on OASDI waiver requests were made. Of these, 49,158 waivers were approved (a 43 percent approval rate). For the first 9 months of calendar year 1982, 43,832 decisions on SSI waiver requests were made, of which 38,131 were approved (a 78 percent approval rate).

In about half of the OASDI cases for which waiver is requested, the waiver is denied because the person was not without fault in causing the overpayment. Of those overpaid persons found to be without fault, recovery is waived in over 80 percent of the cases. Specifically, for calendar years 1980 and 1981 and for the first 7 months of 1982, for those who requested waiver, the percentage found to be without fault ranged from 49.3 to 51.9. For those found to be without fault, the percentage for whom repayment was waived ranged from 84 to 87.3. (We do not have comparable data for the SSI program.)

Question. What are your criteria for judging a beneficiary "at fault?"

Answer. Federal regulations (20 CFR 404.507) define "fault" for purposes of waiver of recovery of Social Security overpayments. The regulations provide that fault is established when the overpayment results from: (a) An incorrect statement made by the individual which he knew or should have known to be incorrect; or (b) failure to furnish information which he knew or should have known to be material; or (c) with respect to the overpaid individual only, acceptance of a payment which he either knew or could have been expected to know was incorrect.

More comprehensive guidelines for SSA employees who are responsible for determining fault for purposes of overpayment resolution are contained in chapter 22 of POMS (sections GN 02260.010-GN 02260.015). These guidelines have already been sent to your staff.

Question. Use of Agency Resources—Have any additional personnel been given to SSA for 1982 or 1983 to implement this increased debt collection plan?

Answer. No. We have been able to implement our debt collection initiative within our existing staff resources since, even before SSA made debt collection a major initiative, we devoted a considerable amount of resources to debt collection activities. In fiscal year 1981, prior to the implementation of our new initiatives, we devoted 5,531 work years to collecting debts. In fiscal year 1982, an estimated 7,123 work years were devoted to the debt collection initiative. A major reason for the increase in work years budgeted for debt collection activities in fiscal year 1982 is our goal of eliminating the sizable backlog of debt that accumulated through years of lax debt collection until we are at the point where we are always working on recent overpayments. After this one-time effort is complete, the ongoing resource requirements are expected to level off. Under the administration's fiscal year 1983 budget, the total estimated fiscal year 1983 work years for SSA's debt collection activities is 6,365.

Question. Have any other workloads been delayed or diverted to allow for debt collection activities?

Answer. No. SSA has been able to carry out its debt collection initiative without any adverse impact on other workloads.

Question. Treatment of SSA Employees—What has been the use of performance goals and quotas for recovering either specific dollar amounts or number of overpayment cases?

Answer. We have set debt collection goals for both OASDI and SSI overpayments to continue focusing attention on the agency's commitment to meeting national targets for collection of SSA's considerable outstanding debt. For fiscal year 1982, dollar collection goals for the SSI program were set for each of the ten regions. For the OASDI program, dollar collection goals were established for the seven processing centers which handle most of the Social Security overpayment activity.

Consistent with the priority attached to this effort and the numerical standards requirements of the Operational Management System (the HHS monitoring and tracking system), there are debt collection objectives for fiscal year 1983 in the personal performance plans (merit pay or Senior Executive Service) of some SSA managers and executives. For example, the performance plan for some regional personnel specifies that to fully meet performance plan standards, 75–85 percent of SSI overpayment dollars identified during the year should be resolved—either through full refund, benefit check offsets or through installment repayment agreements. (However, the plan also specifies that higher levels of performance will *not* be determined by a higher percentage of resolved debts.) This percentage range approximates the actual performance of all the regions in fiscal year 1982, when such a goal was not included in performance plans. However, these performance plans also require that recovery actions be in accord with SSA policy regarding waiver rights and be accomplished with sensitivity.

Job performance in the debt management area for a claims representative is measured according to the same criteria as other job functions. No quantitative measures, such as dollars collected or overpayment cases cleared, are used. The job performance of a claims representative is currently measured by three standards (adjudicating claims, developing claims, and interviewing claimants) according to the degree of independence he or she exhibits in successfully meeting these responsibilities.

Question. Use of Debt Collection Agencies—Does SSA have the legal authority to use third parties?

Answer. SSA had been planning to contract for a pilot program with two private collection agencies, beginning in 1983, to pursue a sample of cases in which we have been unsuccessful in obtaining repayment of overpayments. Our plans were based on authority derived from the April 1981 joint Department of Justice/General Accounting Office regulations which amend 4 CFR Part 102. The regulations advise Federal agencies to consider contracting with private sources such as collection agencies for collection services to supplement Federal collection programs.

Prior to the issuance of these regulations, GAO took the petition that Federal agencies could not legally delegate to private contractors the collection authority granted them under the Federal Claims Collection Act of 1966. In 1981, the Department of Justice and GAO reexamined this position in light of the enactment of the Fair Debt Collection Practices Act of 1978, which effectively eliminated the primary policy objection to the use of private agencies—inadequate safeguards of debtors' rights—by specifically prohibiting collection agencies from engaging in abusive, deceptive or unfair practices under penalty of law. The Department of Justice and GAO concluded that, although Federal agencies must retain control of, and ultimate responsibility for, debt collection activities, the agencies may use private agencies under contract to perform routine debt collection responsibilies such as locating debtors, arranging for repayment schedules, and billing and posting payments. The purpose of encouraging Federal agencies to contract for debt collection services was to reduce the large number of debts written off as uncollectable or referred for legal action that could otherwise be collected in a cost-effective manner by a skilled third party resource.

Question. What are SSA's current plans on pilot projects given that Chairman Rostenkowski amended H.R. 4614 to except Social Security Act programs from the bill's provisions on use of private debt collection agents (as well as from the other provisions on charging interest and offsetting benefits for collection purposes)?

Answer. Based on enactment of the "Debt Collection Act of 1982" (P.L. 97-365), we have terminated our plans to contract with two private collection agencies on a pilot basis. We have also terminated development of regulations, procedures and systems to charge interest.

Question. You state in your testimony that SSA had no debt management system before your administration. Other testimony and evidence indicates that SSA and HHS undertook extensive debt management initiative in 1978 and 1979. Could you comment on the precise initiatives you have instituted in debt management and why they are more successful than previous efforts?

Answer. While there was an SSA debt management program prior to this administration, its performance was hampered somewhat by a lack of coordinated strategy for debt prevention, detection, and resolution. SSA also lacked the system capabilities to support an automated accounts receivable program that would fully control all debts. In 1981 SSA made debt management a major operational priority, and we have made considerable progress towards an effective debt management program. Some of the actions we have taken to improve debt management that we think are contributing to our improved performance are: Clearly designated responsibility for debt management by establishing an SSA debt manager in central office and a debt management coordinator in every operational component and field office; developed a debt management action plan as a tool for directing the overall debt management effort; implemented an SSI Backlogged Debt Project which we expect will result in the collection of nearly $200 million from about 385,000 overpayment cases involving long-term outstanding debts with a potential for collection; rewrote procedural guidelines to reflect an emphasis on timely debt resolution; distributed a training video tape to all operational components which describes the agency's debt management philosophy; established, on an experimental basis, 44 debt collection centers throughout the country to develop and test various methods for locating debtors and for collecting delinquent debts; planned for improved computer capabilities to support an automated accounts receivable system; proposed statutory and regulatory changes to better support a comprehensive debt management program; and established an ongoing match of the Health Care Financing Administration's file of death reports against our Social Security benefit rolls and initiated a pilot death-record matching operation with 13 State and local vital statistics offices to prevent payment errors due to unreported death.

Question. Please provide specific, comparable statistics on overpayment recovery before and after your new initiatives.

Answer. Attached is a chart which shows SSA's debt collection activity between fiscal year 1978 and fiscal year 1982.

Disposition of Total Debt Cleared
FY 78 – FY 82
($ in millions)

	1978		1979		1980		1981		1982	
Outstanding debt, start of year	730.3		1235.5		1485.0		1703.5		1932.2	
OASI	101.2		260.3		474.9		364.3		616.7	
DI	105.0		174.0		234.3		299.2		360.9	
Black Lung	4.3		5.1		5.7		5.0		20.1	1/
SSI (Federal)	430.0		600.9		608.9		637.3		730.9	
SSI (State)	89.7		195.2		191.2		197.7		224.0	
New debt detected (% of outlays)	1187.9	(1.2)	981.0	(0.9)	1013.4	(0.8)	977.2	(0.7)	1384.4	(0.9)
OASI	490.6	(0.6)	532.1	(0.6)	382.3	(0.6)	499.3	(0.4)	751.5	(0.6)
DI	120.0	(1.0)	130.7	(1.1)	118.4	(0.8)	136.6	(0.8)	153.7	(0.9)
Black Lung	1.9	(0.2)	1.9	(0.2)	1.2	(0.1)	1.7	(0.2)	7.1	(0.6)
SSI (Federal)	382.5	(7.2)	222.0	(4.6)	237.8	(4.2)	259.9	(4.3)	373.3	(5.5)
SSI (State)	192.9	(12.3)	74.2	(5.6)	73.7	(4.1)	81.7	(4.3)	99.0	(5.5)
Debt available for collection	1918.2		2216.5		2498.4		2680.7		3316.6	
OASI	591.8		792.4		1007.2		1063.6		1368.0	
DI	225.0		324.7		372.7		433.8		494.6	
Black Lung	6.2		7.0		6.9		6.7		27.2	
SSI (Federal)	812.5		823.9		846.7		897.2		1103.8	
SSI (State)	282.6		269.4		264.9		279.4		323.0	
Total debt cleared	682.7		731.5		794.9		763.5		1067.2	
OASI	331.5		367.6		442.9		446.9		626.0	
DI	51.0		70.4		73.5		92.9		102.7	
Black Lung	1.1		1.3		1.9		1.6		6.4	
SSI (Federal)	211.6		214.1		209.4		166.7		267.6	
SSI (State)	87.4		78.2		67.2		55.4		64.5	
Debts collected (% of clearances)	484.2	(70.9)	540.9	(73.9)	636.4	(80.1)	635.4	(83.2)	971.4	(91.0)
OASI	309.8	(93.5)	344.9	(93.8)	422.6	(95.4)	418.6	(93.7)	602.8	(96.3)
DI	35.3	(69.2)	51.2	(72.7)	53.1	(72.2)	62.7	(67.5)	72.1	(70.2)
Black Lung	0.5	(45.5)	0.5	(38.5)	1.1	(57.9)	0.7	(43.8)	5.1	(79.7)
SSI (Federal)	94.7	(44.8)	103.8	(48.5)	116.1	(55.4)	110.5	(66.3)	234.8	(87.7) 2/
SSI (State)	43.8	(50.1)	40.5	(51.8)	43.6	(64.9)	42.9	(77.4)	56.6	(87.7)
Recovery waived (% of clearances)	153.3	(22.5)	145.0	(19.8)	121.8	(15.3)	90.1	(11.8)	73.6	(6.9)
OASI	4.5	(1.4)	8.8	(2.4)	10.3	(2.3)	12.9	(2.9)	10.2	(1.6)
DI	10.5	(20.6)	15.1	(21.5)	15.6	(21.2)	19.3	(20.8)	19.3	(18.8)
Black Lung	0.1	(9.0)	0.1	(7.7)	0.1	(5.3)	0.1	(6.3)	0.0	(0.0) 3/
SSI (Federal)	99.3	(46.9)	90.0	(42.0)	76.8	(36.7)	48.4	(29.0)	34.0	(12.7)
SSI (State)	38.8	(44.4)	31.1	(39.8)	19.0	(28.2)	10.3	(18.6)	10.1	(15.7)
Debts written off as uncollectable (% of clearances)	45.2	(6.6)	45.6	(6.2)	36.7	(4.6)	38.0	(5.0)	22.2	(2.1)
OASI	17.2	(5.2)	13.9	(3.8)	10.0	(2.3)	16.3	(3.7)	13.0	(2.1)
DI	5.2	(10.2)	4.1	(5.8)	4.9	(6.7)	10.9	(11.7)	11.3	(11.0)
Black Lung	0.5	(45.5)	0.7	(53.9)	0.7	(36.8)	0.8	(50.0)	1.3	(20.3)
SSI (Federal)	17.6	(8.3)	20.2	(9.5)	16.5	(7.9)	7.8	(4.7)	-1.2	(-0.4) 4/
SSI (State)	4.8	(5.5)	6.6	(8.4)	4.6	(6.9)	2.2	(4.0)	-2.2	(-3.4) 5/

1/ Represents manual records plus projections for automated check adjustments.

2/ The Disability Amendments of 1980 provided for offsetting retroactive title II Social Security benefits by the amount of SSI benefits already paid that would not have been paid had the Social Security benefits been paid on their regularly scheduled payment dates. SSI debts collected for FY 1982 reflect the offsets made as a result of the provision.

3/ Waivers were granted in the black lung program; however the total dollar amount was less than $100,000.

4/ This negative figure does not represent debts written off as uncollectable; rather, it is an accounting adjustment required by an erroneous posting of data this year. Due to the processing error, actual dollars written off cannot be determined.

Question. Please outline in detail for us the steps SSA is taking to detect "isolated incidents" of overzealous collection activities in the field; specifically, the Arlington, Virginia letter and the Massachusetts activities mentioned by Mr. Shannon?

Answer. We have made it clear to SSA employees that prescribed instructions for collection procedures must be followed: All field offices have been instructed in writing and reminded that only approved debt collection notices and letters may be used. Field offices have been directed to submit locally produced notices to the central office for approval before use. Copies of all instructions sent to the field have already been submitted to your subcommittee for the record of the September 23, 1982 hearing.

The "Arlington, Virginia" letter was an unapproved letter, and the use of this letter has been stopped.

All area directors (area directors supervise a network of district offices) have been directed to monitor offices under their jurisdiction to make sure that they are using only approved notices and are otherwise pursuing overpayment collections in an ethical, appropriate manner.

We are preparing a reminder for field employees that will reemphasize the balanced perspective that we want to maintain between reasonable, effective collection efforts and the need to preserve the rights, the dignity and the income security of program beneficiaries.

The Massachusetts activities mentioned by Mr. Shannon concerned a complaint that SSA debt collectors are making unannounced home visits. We do not have any evidence of inappropriate home visits by SSA personnel. We make personal visits when attempts to contact the person by mail or telephone fail. In the case of the home visit mentioned by Mr. Shannon, the beneficiary stated in testimony that she had received at least two written notices to repay her debt, one of which requested her to contact the Social Security office. Since she did not respond to either notice, we think a home visit was appropriate.

SOCIAL SECURITY NUMBER CARD

Question. What documentation does SSA rely on for issuing the card?

Answer. Applicants for Social Security number (SSN) cards must submit evidence of their age, identity and U.S. citizenship or lawful alien status. The most commonly presented evidence of age is a public birth record. If a birth certificate is not readily obtainable (e.g., within 2 weeks), other documents such as baptismal records, school records, drivers' licenses, military records, etc., which show a date of birth or age can be used if they substantiate the applicant's alleged birthdate. A personal interview is also required for all applicants for a new SSN who are age 18 or older.

For U.S.-born persons, the birth certificate also serves as proof of U.S. citizenship. In the absence of that proof, a U.S. citizen can present a passport, military record or other documentation confirming birth in the United States. Foreign-born persons who are U.S. citizens can present U.S. passports, U.S. citizen identity cards issued by the Immigration and Naturalization Service (INS), consular reports of birth for U.S. citizens born abroad, and certificates of naturalization issued by various U.S. and State courts. Foreign-born persons who are not U.S. citizens must present documents issued by INS. These documents specify the status of the alien's admission and enable SSA to determine if an unrestricted SSN or a nonwork number should be assigned.

Evidence of identity may consist of any documents which provide information the reviewer can compare with the data on the SSN application (e.g., name, age, date of birth, address, signatures, etc.) or verify visually with the applicant (e.g., photograph, physical description, etc.). The most common identity documents submitted are drivers' licenses or state identity cards, marriage records, immigration documents, school or military ID cards or records, and passports. However, a wide variety of other documents may also be acceptable depending on the information they contain.

Question. How easily counterfeited is the existing card?

Answer. The current card is printed on undistinguished stock, using ordinary inks. It has no built-in security features. The individual data (i.e., SSN holder's name, the number itself and the "Not Valid for Employment" legend where appropriate) are added to the blank card stock using a computer printer. (Prior to April 1982, the majority of replacement cards were issued by local SSA offices, with the individual data entered by typewriter.) No specialized type fonts or inks are used in this process, either. The card can therefore be easily reproduced.

Good quality counterfeits would escape detection in normal usage, although they might be uncovered through chemical analysis of papers and inks. More amateurish counterfeits are sometimes detected by INS and HHS investigators because of glaring discrepancies in ink color or because the individual data are typed incorrectly or include impossible SSN's. In general, however, most counterfeits of the current card would be accepted by employers and other users without question.

SSA has begun preliminary work on proposals to begin issuing new and replacement Social Security cards printed on banknote paper. While no final decisions have been made in this matter, the idea behind this work is that doing so will make the cards much more durable and long-lasting, as well as making the card more difficult to counterfeit, at a relatively low cost. Final decisions on this matter will not be made without consultation with the committee.

Question. Are Social Security program purposes served by establishing the number and card as reliable identifiers?

Answer. SSA does not utilize the SSN card as an identifier. However, since the SSN is used by employers to report Social Security earnings and by SSA to credit earnings to workers' earnings records, SSN holders are encouraged to show their cards to employers so that the name and SSN can be entered accurately in the employment record. Public information materials and correspondence directed to employers likewise stress the importance of actually looking at the card to assure accurate information for earnings reporting.

In its claims processes, SSA uses the SSN to identify a record rather than a person. Applicants for benefits must establish their identity as the SSN holder or, if they are applying on someone else's earnings record, must establish the required relationship to the worker. The SSN is not used to establish an applicant's identity.

Question. Is the SSN for all practical purposes already a universal identifier?

Answer. No law requires U.S. citizens and residents to have and use an SSN. Nevertheless, the SSN is certainly one of the most widely-used identifiers in the country among both public and private organizations. Because of its use as the individual taxpayer identification number and the reporting number for earnings covered by Social Security, most adults have an SSN. An increasing number of SSN's are being issued to children and young people who have bank accounts or savings bonds, are recipients of AFDC or food stamp benefits or attend schools which use the SSN as an identifier. Legislative action in recent years has tended to expand use of the SSN in the public sector, and there are few restrictions against its use in the private sector. The Social Security Act does, however, provide certain penalties not only for the misuse of the SSN in order to receive greater benefits under the Act but also for occasions when the SSN is misused to gain anything of value from any person, or misused for any other purpose.

Despite the number of organizations now requesting the SSN, many do not actually use the number as an identifier. They may retain the SSN in their files without attempting to use it merely to access or cross-check other records. Even in programs where the SSN is required by Federal or State law to receive a benefit, it may be used merely as evidence of identity, while the identity of the client is established based on additional evidence. We do not think the SSN care is used as proof of identity nearly to the extent that the number is used as a means for storing and retrieving information.

It is also important to bear in mind that prior to 1972, SSN cards could be obtained without proof of identity, and consequently, many numbers are in use which were acquired based merely on the applicant's own allegation of identity. This fact alone greatly diminishes the SSN's reliability as a universal identifier.

Question Could the Social Security number card be made a reliable identifier by simply printing on bank-note paper?

Answer. No. We can reduce counterfeiting and tampering by using specialized papers and inks and building some security features into the card. Users of the card (employers, government agencies, etc.) will have more assurance that the card is genuine, was issued by SSA and is based, to the best of SSA's knowledge, on a valid and legitimate application.

However, this does not mean that the SSN card will then be a reliable identifier because SSA still could not guarantee in all cases that the application information and its supporting documentation are wholly accurate. It is well known that much of the documentation we require from applicants is highly susceptible to counterfeiting and alteration. With increased training and attention to this area, we hope to improve significantly our ability to detect such false material but we cannot expect to detect it all. Thus, we may very well issue some tamper-resistant cards that could not be deemed "reliable identifiers."

In addition, the current card contains only the SSN holder's name and the number itself. There is no identifying date (date of birth, sex, picture, etc.) to tie it to the bearer. Thus, a properly issued, tamper-resistant card could be presented by someone other than its true holder, in which case it would not be a "reliable identifier."

Question. What are the costs and feasibility of devising a truly "tamper-proof" card?

Answer. Experts agree that no document is completely tamper-proof. Any document can be reproduced if the falsifier has sufficient motivation to expend the necessary time and resources to duplicate it. By building in security features, however, and making the card more difficult to alter or counterfeit, the number of potential abusers can be substantially reduced. Costs and feasibility depend on the level of security deemed necessary, a decision that must be tied directly to the intended use of the card and the degree of reliability users must expect of it.

For SSA and the majority of current users, we believe a card printed on banknote paper recommended by the Bureau of Engraving and Printing at a cost of 2 to 3½ cents per card—the current card costs about one cent—would meet most needs. The additional cost of using banknote paper and other security printing features for new and replacement SSN cards, but with no other changes in the present card insurance system, is estimated to be about $350,000 per year. The current estimated cost of reissuing the tamper-resistant card to all cardholders with careful verification of identity is in excess of $1.08 billion. The costs of any further upgrading and complete reissuance of the card, with better identification features such as photographs or magnetic tape, would be as high as $2 billion.

Question. What potential exists for computer fraud and/or abuse if one number, the SSN, became a more or less universal identifier?

Answer. It is technically feasible to use a wide variety of identifiers to access records for either legitimate or fraudulent purposes. When the element is a unique, readily recognizable identifier such as the SSN and it is known to be retained in a variety of systems, anyone with knowledge of a specific SSN and means of accessing the system could conceivably commit fraud. As the identifier is housed in more and more systems, the potential for fraud becomes greater.

Question Does this potential already exist?

Answer. Yes. The SSN is already housed in many public and private data systems. Records maintained by SSN by Federal agencies are identified in published notices.

Question. How can it be limited or controlled?

Answer. The problem must be addressed from two perspectives. First, each system must be protected from unauthorized access. Most agencies, including SSA, are becoming increasingly aware of the need to build security features into their systems to assure that only authorized users can input, amend, delete or access the data. This includes protecting the systems from both external penetration and from internal abuse by employees. SSA has several layers of access protection against external penetration. SSA also employs several programs specifically designed to identify employees and control internal fraud. These include a log-on/log-off program which identifies employees who are authorized to start, stop or change data which may influence payment. SSA is currently working on an automated audit trail to identify all employees who input, amend or delete data in the system.

Second, where access to the systems or the data they contain is authorized, safeguards are needed to assure that this information, once obtained, is not misused. For example, the Inspectors General are currently encouraging Federal and State agencies to share information as a means of preventing fraud, waste and abuse in government programs. Computer matching programs are a key element in this data sharing. The Privacy Act, the Freedom of Information Act and the Tax Reform Act provide basic guidelines for disclosure and use of individual agency data, but they are not uniformly interpreted or applied. In addition, agencies receiving data do not have uniform policies as to its redisclosure or access to it while it is in their possession. In the private sector, there are no restrictions at all as to the exchange or disclosure of data.

DELAY IN POSTING OF WAGES

Question. In its August 1982 study on the annual wage reporting process, the Office of the Inspector General recommended that the individual who approves authorization requests for employers to submit wage data on magnetic tape be allowed to contact the employers directly to resolve any questions on the information submitted when a clear-cut decision cannot be made. (Current SSA policy only allows the regional offices to make employer contact.)

Your response to this recommendation was that you had "analyzed the use of direct employer contact by systems personnel and concluded that in most cases contact through the regional offices is preferable."

When was this analysis made and what was the nature of the analysis used as a basis informing this conclusion?

Answer. Our response to the OIG study was an interim response only; upon further consideration we decided to adopt the OIG recommendation. As a result, personnel in our Office of Systems who approve authorization requests now contact employers directly to resolve any questions about the information submitted on an authorization request.

Question. It appears that a significant portion of past delays in posting of earnings involved the increased use of magnetic tape wage reporting with inadequate control being exercised by SSA in the information submitted by employers. Months were spent testing and experimenting unprocessable tapes.

What is curently being done to insure a sufficient and accurate tape submittal by employers?

Answer. SSA issues technical instructions to employers who report earnings on magnetic media. As experience has shown us which kinds of magnetic media reports our systems can and cannot process, we have revised the technical instructions accordingly. We have also provided employers with detailed technical appendices to the basic instructions in order to allow them to refine their computer programming to help ensure that their reports are processed correctly.

Question. What percentage of tapes are still being returned to employers for correction?

Answer. During the processing of 1978 and 1979 reports of earnings on magnetic media, SSA did not return reports to employers before we had tried every approach toward getting the report processed. This added considerably to our workloads and processing times. However, beginning with reports of 1980 earnings, SSA's policy has been to promptly return unprocessable magnetic media reports to employers for correction, since SSA has given employers the technical advice necessary to produce processable reports. Since this policy became effective, we have returned about 15–18 percent of reports to employers.

Question. Has the authorization process been improved and what is the rate of follow-up to make sure the job control language being submitted by employers conforms to SSA's needs?

Answer. Our authorization process has improved primarily because we have had the benefit of several years of experience with magnetic media reporting. Our authorizing personnel have become expert concerning the capabilities of many different types of data processing systems and can much more quickly and accurately determine whether or not employer reports will be processable on our systems. Another improvement is that we require employers newly using magnetic media reports to submit a sample report for testing purposes.

For years prior to 1982, reports were processed with job control language that had been derived from the information on the original authorization request. With the advances in computer technology since some of those original requests were filed, the original information is sometimes obsolete unless the employer has filed an amended request. Beginning with reports for 1982, employers are required to include in their reports current information concerning the technical characteristics of the reports. This information will enable SSA to construct usable job control language even if the employer failed to amend the original authorization request. As in the past, follow-up concerning job control language which is not usable will usually be resolved with a telephone call to the employer. In past years the follow-up rate was about 10 percent; our new procedures should cut down on the need for follow-ups.

Question. Employers in U.S. possessions (Guam, American Somoa, the Virgin Islands, and Puerto Rico) were not covered in the initial switch to annual reporting.

Has a date been set? If so, what is being done to insure a smooth transition when these entities switch to annual reporting?

Answer. Employers in the U.S. possessions have been reporting on an annual basis since 1979. No significant problems were encountered in the switch to annual reporting.

Question. Apparently, conditional approval by SSA of wage data on magnetic tape was largely to encourage employers to make the switch from paper reporting to tape reporting.

Is it still serving this function and, if so, to what degree?

If it is no longer effective in this capacity, why should conditional approval of authorization be continued?

Answer. Conditional approval was first used to encourage employers to report earnings on magnetic media at a time when SSA could not process all of the requests for approval before the deadline for reporting 1978 earnings. Conditional approval is now limited to those situations where, based on past experience, it is not certain that we can process a specific magnetic media report and there is insufficient time to receive and process a test tape before the report itself must be filed.

The conditional approval procedure is still useful, even though we now use it much less frequently. So far in calendar year 1982, SSA has received 353 requests for approval and only 7 have been conditionally approved. In 1981, out of 194 new requests, 56 were conditionally approved.

Question. In responding to a Subcommittee request made in our December 1981 hearings for a status update on the posting of earnings for 1978 and 1979, you submitted material stating that as of December 11, 1981, some 1 million items remained to be posted for tax year 1978 and that as of December 22, 1981, some 1.3 million items remained to be posted for tax year 1979. In your July 20, 1982, update, you indicated that some 11 million items for these years were placed in suspense. Since your last report on the posting of earnings for these years, the Subcommittee has been contacted by Members of Congress, former Members of Congress, and business organizations claiming constituents and employees still do not have learned of their situation by requesting a statement of their earnings. Neither the employees nor the employers were aware of any errors made in reporting wages for these years.

Is there a time lag between crediting these wages and this information being accessible for earnings record requests?

Answer. There is no lag between the time wages are credited to an individual's earnings record and their accessibility when the individual requests a statement of earnings. The lag time is between our initial processing of an employer's paper or tape report and the crediting of individual wage items to the employee's earnings record. The materials flow through a series of computer processes which validate the employee's name and SSN against SSA's files and then into the records-crediting operations. The size of the earnings-crediting operation and the demands on the computers by other important programs has meant that we have only been able to run the computer program for crediting three times a year, rather that the four times we had scheduled.

Question. Is this category of case being placed in suspense?

Answer. The suspense file serves a very specific purpose. It is made up of individual wage items where the name and/or the SSN do not match SSA's record of SSN holders, and we are unable to identify the specific record to which the earnings should be credited. Only then are items placed in the suspense file. (A large number of these uncreditable items result from employment areas that are chronically deficient in their reporting patterns, including employers of migrant laborers, illegal aliens, and fast food workers.) When an item is placed into suspense we contact the employer to resolve the discrepancy. If the employer is able to furnish the correct information, we then credit the wage item to the employee's earnings record.

Question. The Inspector General recommends that all related employer data be held in one central location (the Reconciliation Branch of the Office Operations) to facilitate the updating of the data base.

You responded that the "selling job" for magnetic tape reporting and the primary contact for record correction was vested in the regional offices.

Do the regional offices have the expertise and the staffing to resolve technical ADP (automatic data processing) aspects which might warrant resubmittal of wage reports resulting in further delays?

Answer. Yes. During the past 3 years, the regional offices have assumed the primary role in negotiating with employers about magnetic tape reporting. As a result, the regional office staffs now have the technical expertise necessary to carry out this function, and they have established solid working relationships with employers. Also, headquarters staff is always available to offer any necessary help to regional staffs. We are confident that the regional staffs handle technical ADP issues competently and efficiently.

BENEFIT RECOMPUTATION

Question. With 85 percent of the 1978 benefit recomputations completed, can you give us an estimate of the additional costs to the program in increased benefits?

Answer. The 1978 benefit recomputations which were processed prior to September 1982 (about 85 percent of the total workload for 1978 earnings) increased amounts in current-payment status by about $38 million per month.

Question. What percentage of the remaining 1978 recomputatioins and those for 1979 and 1980 have been completed?

Answer. As of mid-October, about 51 percent of the total of the remaining 1978 cases and the 1979 and 1980 cases had been initially processed but roughly one-third of these require additional manual processing.

Question. What is the additional cost to the program from those processed thus far?

Answer. The 1978-80 benefit recomputations, which were processed from September though mid-October 1982, increased amounts in current-payment status by about $25 million per month. Once all of the benefit recomputations based on the 1978-80 earnings are completed, the total increase in benefits will be an estimated $116 million per month. This amount includes the $38 million attributable to recomputations completed prior to September 1982.

Question. AERO (Automatic Earning Reappraisal Operation) processing requires a substantial amount of computer time according to information submitted to my Subcommittee staff by OLRP, and it is stated that the full implementation of SSA'a systems modernization is expected to eliminate many sources of delay.

Where are you in terms of implementing your systems modernization program?

Answer. We have made significant progress under the four programs comprising the Systems Modernization Plan which address our software, hardware, communications and data problems. The plan is proceeding on schedule and is within our budget estimates. We expect that the initiatives we have scheduled for the first 18 months will be carried out timely.

One of the most important aspects of the plan is to provide for management continuity to see the plan through to completion. We have recently signed a contract with Electronic Data Systems, Inc. to manage and control the majority of the tasks under the plan.

Question. Can the time lag on benefit recomputations be reduced to the 10-month goal prior to the full implementation of the systems modernization?

Answer. The 10-month goal mentioned in the testimony submitted to your Subcommittee on September 23 referred to our goal of reducing the earnings crediting time to about 10 months following the close of the calendar year in which the wages are paid. As you know, the benefit recomputation process is tied to the wage reporting system; we cannot recompute benefits until the wages are credited to individuals' earnings records. We have solicited bids from contractors to redesign the annual wage reporting system software. As we improve our wage crediting procedures, we should be able to reduce the lag in benefit recomputations; however, we will not be able to do benefit recomputations in 10 months before the completion of systems modernization.

EARNINGS TEST ENFORCEMENT

Question. The 1978 and 1979 Earnings Test Enforcement Operations were processed in October 1981 and December 1981 respectively, we understand.

Can you give us an estimate of the number of overpayments revealed in this process? What is the dollar figure?

Answer. SSA investigated a total of 1.5 million cases in the 1978 and 1979 Earnings Test Enforcement Operations. (Investigations were undertaken in cases where earnings in excess of the annual exempt amount were credited to a beneficiary's earnings record but the beneficiary had either failed to notify SSA of those earnings (by filing an annual report) or had reported a lesser amount.) Two-thirds of the cases investigated have been completely processed. We have identified overpayments of about $200 million to about 400,000 people, or about $500 per case.

In the remaining one-third of the cases, beneficiaries did not respond to SSA inquiries about their excess earnings. In August 1982, these cases were referred to SSA's program service centers (PSCs) for final processing. The PSCs make a determination of the amount of the overpayment in each case based on the evidence available to SSA and initiate procedures for recoupment. The PSCs are still processing these cases.

Question. The 1980 Earnings Test Enforcement Operation is scheduled to begin this November.

Will it begin on time?

Answer. Preliminary activities related to 1980 Earnings Test Enforcement Operation are already underway. We are now contacting beneficiaries who filed estimates of earnings expected in 1980, but who did not file reports of actual earnings after the close of 1980.

The phase of the enforcement operation which was scheduled to begin in November involves comparing earnings reported by employers with beneficiaries' records to determine which beneficiaries had earnings but filed neither an estimate of expected earnings nor a report of actual earnings. This phase also identifies beneficiaries whose employer-reported earnings are higher than the amount reported to SSA by the beneficiary. Competition for systems resources will delay this phase of the enforcement until December.

Question. How long will the process take?

Answer. After the December comparison of earnings reported by employers with employees' own reports is complete, beneficiaries will be contacted in January 1983 in cases where a discrepancy has been discovered and will be asked to provide earnings information. Beneficiaries whose employers reported earnings for them but who did not file any earnings reports themselves will be contacted in February 1983. If a beneficiary responds, we will pay any underpayments or request repayment of any overpayments; we expect to have these cases completed by May 1983. In July 1983, in cases in which beneficiaries do not respond, we will begin making decisions based on the earnings evidence in file and then take any necessary overpayment or underpayment action. This last phase of the enforcement operation will not take place until July because it is dependent on systems availability and the press of program service center workloads.

Question. I understand that the annual reporting will allow SSA to use noncovered (government and nonprofit) earnings in the enforcement procedure.

Have you been able to gather any record of noncovered earnings from your experience with the 1978 and 1979 operation? Are there a significant number of people in this category?

Answer. Due to systems limitations, noncovered earnings were not available for use in the 1978 and 1979 enforcement operations. We had expected to use them for the first time in the 1980 operation, but systems-related difficulties will require us to defer their use until the 1981 operation. Then we will be able to determine the significance of using noncovered earnings data to detect overpayments.

Question. In the past, wage reporting was a mechanism used to find out that people were working and may no longer be disabled. What effect has annual reporting had on this mechanism?

Answer. The change to annual wage reporting did somewhat impair our ability to monitor the disability rolls. However, we used mass mailings to solicit information from Social Security beneficiaries about work activity and to remind people of their responsibility to report it. This helped to diminsh the effect of annual wage reporting because many individuals did voluntarily report their return to work (see also question 2). The implementation of the periodic review of every nonpermanently disabled beneficiary every 3 years, as required by P.L. 96-265, also serves to help identify people who have returned to work.

Question. What is the time lag today? Under the quarterly reporting system it took about 9 months for the age information to become available for enforcement purposes.

Answer. The time lag before earnings are used for enforcement purposes for the disability program is currently about 24 months. (This includes the current 15-month time frame for crediting the earnings.) Under quarterly wage reporting, the total time before earnings were used for enforcement purposes was generally about 12 months (including a 9-month time frame for crediting the earnings). A large part of this lag is due to competition for scarce computer resources; as our systems' modernization and improvement plan is implemented, we will be able to reduce this lag.

Question. At the time that annual reporting was instituted the Social Security Administration indicated that it would accelerate the efforts to get better voluntary reporting. What has been the result?

Answer. After the change to annual wage reporting, SSA made mass mailings in 1978 and 1979 reminding disability beneficiaries of their responsibility to report any work activity and earnings to SSA. Because of this effort to get better voluntary reporting, the number of continuing disability determinations (both continuances and cessations) based on voluntary reports of work activity from disabled title II worker-beneficiaries increased from about 10,000 in 1977 (the year before annual wage reporting was instituted) to over 24,000 in 1979.

Question. The Social Security Administration used mass mailings in 1978 and 1979 to overcome the time lag. There were indictions that these efforts were cost effective. Why were they abandoned?

Answer. Mass mailings were not done in 1980 because we expected that 1980 earnings would be posted timely and available for enforcement purposes. In addition, the implementation of the periodic review of every nonpermanently disabled beneficiary at least once every 3 years, as required by P.L. 96-265, helps us in identifying disability beneficiaries who return to work.

Question. The Federal Government currently pays some 38 states to collect quarterly wage information for unemployment purposes and the GAO recommends that the remaining 12 states be required to do this also. Couldn't this information be used for disability purposes as well as unemployment purposes?

Answer. SSA is looking into the possibility of using State unemployment compensation (UC) data to monitor the work activity of Social Security disability beneficiaries; however, the proposal requires careful analysis to determine whether it would be cost effective. One problem is that State UC data would be incomplete. For example, 12 States representing 40 percent of workers covered under State UC programs do not require that UC wages be reported on a regular basis. Even if the 12 States did begin to report UC data regularly, the coverage rules under UC programs are different than those under Social Security and they vary from State to State. Thus, SSA would have to continue to use Social Security earnings information for disability program enforcement activities, resulting in some duplication of effort.

Chairman PICKLE. The Chair will recognize our colleague, Mr. Panetta of California.

Your observations are valuable and valid. We are pleased to hear from you now.

STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. PANETTA. Thank you for the opportunity to be able to testify, and also for having these hearings, because as I told you personally, Mr. Chairman, there are some real problems in my district and in other districts around the country that relate to the administration of the social security program that are frightening in terms of their scope. Individuals who think that they have got a certain amount of benefits coming find out that, in fact, no earnings have been posted.

The social security system is larger than the economies of about a dozen of the world's nations.

On June 30, the system was paying benefits to over 35 million beneficiaries. That is a rate of almost $13 billion per month.

As you know, 1 out of 7 Americans is receiving some form of payment from the Social Security Administration, and 9 out of 10 jobs in this country are eligible for coverage under the program. Since the system's founding in 1937, almost $1 trillion in benefits have been paid out.

Very clearly, an operation of this size and complexity requires modern and efficient administration techniques if it is going to keep track of the incoming revenues and calculate the amounts of over 35 million monthly checks with any degree of accuracy.

Nevertheless, it appears that social security's data recording system has not proven equal to the task.

As you may know, in January 1976, the Congress directed the Social Security Administration to switch from a recordkeeping system based on quarterly wage reports from employers to one based on a consolidated annual report beginning with tax year 1978. This provision was designed to save on administrative costs.

The Congress did not take into account the tremendous difficulty the Social Security Administration would experience in switching over to a more efficient system.

The result has been a tremendous number of delays and administrative problems which have been detailed by the Office of Inspector General, Department of Health and Human Services, and which are presently under investigation by the GAO.

One problem in particular—delays in the posting of annual wage records—has been brought to my attention by constituents in my district.

The wage reports filed by employers contain full Federal and FICA tax information and wage data on each employee. The Social Security Administration is responsible for recording or posting this information to the summary earnings records, the wage records kept for each individual social security account.

It now appears that the process of posting wage records has not yet been completed for 1978, the first year of annual wage reporting—4 years after the transfer from a quarterly to an annual system. Nor is the recordkeeping becoming any more efficient. On the contrary, the posting process for 1981 wage records has barely begun.

An example may serve to illustrate the nature of this problem.

In May of this year, the editor and managing editor of the Watsonville, Calif., Register-Pajaronian, a newspaper in my district, wrote to the Social Security Administration to check on their wage records. Their records listed their wages correctly for 1980, but for 1979 listed their wages as "none."

They alerted their fellow employees to the problem and suggested that they also write to check their records. Of the over 2 dozen who did so, none had any earnings from the Register-Pajaronian listed for 1979, although some who had also worked elsewhere during that year had those outside earnings correctly recorded. Apparently, the 1979 wage report filed by the newspaper had simply never been processed.

Similarly, it was discovered that no employees of Ametek, a Watsonville-based aluminum fabricator, had any wages recorded for 1979.

Nor is the problem confined to my district. The Social Security Administration failed to record any earnings for 14,000 Western Union employees and 575,000 Air Force employees—over 90 percent of Air Force personnel—in 1978; and 8,000 CBS employees and 22,000 ABC employees in 1979. These omissions were discovered, as was the omission of the Register-Pajaronian records, through chance routine inquiries made by individual employees. The full extent of the recordkeeping failure remains unknown.

The potentially widespread nature of this problem is obvious, and its possible ramifications for social security recipients are critical. The Social Security Administration's data on each worker's employment and tax history from the basis for computing that worker's benefits should he become disabled or retire, the benefits due his spouse and dependents, and those due his survivors should he pass away.

If the records are incomplete, the amount of the benefit may very well be incorrect. It is true that when an individual first applies for social security benefits, the earnings record for recent years is checked, but this haphazard method of control is surely insufficient as a guarantee of the system's accuracy. It can and should serve as a backup to the normal recordkeeping operations, but it cannot substitute for prompt, efficient, and accurate recording of wage data.

In addition, this procedure does not affect another delay which has a direct effect on the amount of benefits being paid to social security recipients who continue to be wage earners. Under the law, these recipients' records should be checked periodically and their benefits recalculated to reflect the wages they have earned and the taxes they have paid since the initial computation of their benefits. However, this recomputation process, like the initial posting of wages, has suffered major delays since 1978 and remains several years behind.

There is another aspect of this problem which I find quite disturbing. It is possible for individual social security account holders to check on the accuracy of their wage records, as did the employees of the Register-Pajaronian. However, because the Social Security Administration has failed to notify those affected or potentially affected by these delays that a problem exists, the general public—that 90 percent of our working population which can expect to receive social security benefits someday, if they are not doing so already—has no reason to suspect the existence of this massive backlog, and therefore no reason to request a check of their records.

The Social Security Administration, in other words, has avoided the one reasonably certain method of insuring the accuracy of the system: Review of wage records by the wage earner himself.

I would hope that the subcommittee will continue to investigate these delays in posting wa[illegible] will solicit the Social Security Administration's help in ans[illegible] the many questions which remain, including: The numb[illegible] errors and omissions in the Social Security Administrati[illegible] for the years 1978 through 1981; how many of those erro[illegible] caused by inadequacies in the recordkeeping system, rathe[illegible] errors in the wage records submitted to the Social Security Administration; the amount of current and potential underpayment due to calculation of benefits by incomplete wage records; the cost of correcting these errors; and the cost of updating and modernizing the social security recordkeeping system to insure that these backlogs do not recur in the future.

At a time when the fiscal integrity, the stability, and the very survival of the social security system are seriously threatened, I do not believe we can afford the kind of delay and inefficiency which I have tried to outline for you here today. The employers and workers who bear the ever-increasing burden of the social security payroll tax, and who depend on the social security system for their own security and that of their families in case of old age, disability, or death, deserve a system that is, at a minimum, up to date and accurate.

I welcome the efforts of the chairman and members of this subcommittee to achieve that goal. I can't tell you how much concern this has raised in my area. People are concerned enough about the stability of the social security system and to find out that, in fact, their particular wage records were not even posted, to have 1 year in which no earnings were recorded at all, has raised a tremendous amount of concern in my area. We are now getting hundreds of requests daily to determine how they can check the posting of their wages to insure that the Social Security Administration has done this.

It takes 2 or 3 weeks to try to get that report back, but in many instances we are finding that the same inadequacies exist. It is feeding into the great concern that people already have about the system and its viability.

I would urge you to try to do everything possible to insure that the administration of the program is carried on efficiently.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Thank you for the opportunity to testify before you today concerning a serious deficiency in the record-keeping system of the Social Security Administration, a deficiency which potentially touches millions of current and future Social Security recipients. I believe that the Social Security Subcommittee in scheduling these oversight hearings has provided an excellent forum for a much-needed investigation of the manner in which the Social Security system—which includes the vast majority of the working and retired populations of this nation—is being administered.

The Social Security system is larger than the economies of all but about a dozen of the world's nations. As of June 30 the system was paying benefits to over 35 million retired and disabled workers, their spouses and dependents, and survivors of deceased workers, at the rate of over $13 billion per month. In other words, one out of every seven Americans was receiving some form of payment from the Social Security Administration. Nine out of ten jobs in this country are covered or eligible for coverage under the program; 95 percent of our elderly citizens are eligible for benefits. Since the system's founding in 1937, it has paid out over one trillion dollars in benefits. Clearly, an operation of this size and complexity requires modern and efficient administration techniques if it is to keep track of incoming revenues and calculate the amounts of over 35 million monthly checks with any degree of accuracy. Nevertheless, it appears that Social Security's data-recording system has not proven equal to the task.

As you know, in January of 1976, the Congress directed the Social Security Administration to switch from a record-keeping system based on quarterly wage reports from employers to one based on consolidated annual reports beginning with tax year 1978. This provision was designed to save on administrative costs, but the Congress did not take into account the tremendous difficulty the SSA would experience in switching over to this more efficient system. The result has been a number of delays and administrative problems which have been detailed by the Office of the Inspector General at the Department of Health and Human Services and which are presently under investigation by the General Accounting Office, as you will hear this afternoon. One problem in particular, delays in the posting of annual wage records, has been brought to my attention by some of my constituents in California's 16th Congressional District, and I would like to discuss that problem in a little more detail with you today.

The wage reports filed by employers contain full federal and FICA tax information and wage data on each employee. The Social Security Administration is responsible for recording or "posting" this information to the Summary Earnings Records, the wage records kept for each individual Social Security account. It now appears that the process of posting wage records has not yet been completed for 1978, the first year of annual wage reporting—four years after the transfer from a quarterly to an annual system. Nor is the record-keeping becoming any more efficient; on the contrary, the posting process for 1981 wage records has barely begun.

An example may serve to illustrate the nature of this problem. In May of this year, the editor and managing editor of the Watsonville, California Register-Pajaronian, a newspaper in my district, wrote to the Social Security Administration to check on their wage records.

Their records listed their wages correctly for 1980, but for 1979 listed their wages as "none." They alerted their fellow employees to the problem and suggested that they also write to check their records. Of the over two dozen who did so, none had any earnings from the Register-Pajaronian listed for 1979, although some who had also worked elsewhere during that year had those outside earnings correctly recorded. Apparently, the 1979 wage report filed by the newspaper had simply never been processed.

Similarly, it was discovered that no employees of Ametek, a Watsonville-based aluminum fabricator, had any wages recorded for 1979.

Nor is the problem confined to my district. The Social Security Administration failed to record any earnings for 14,000 Western Union employees and 575,000 Air Force employees (over 90 percent of Air Force personnel) in 1978; and 8,000 CBS employees and 22,000 ABC employees in 1979. These omissions were discovered, as was the omission of the Register-Pajaronian records, through chance routine inquiries made by individual employees. The full extent of the record-keeping failure remains unknown.

The potentially widespread nature of this problem is obvious, and its possible ramifications for Social Security recipients are critical. SSA's data on each worker's employment and tax history form the basis for computing that worker's benefits should he become disabled or retire, the benefits due his spouse and dependents, and those due his survivors should he pass away. If the records are incomplete, the amount of the benefit may very well be incorrect. It is true that when an individual first applies for Social Security benefits, the earnings record for recent years is checked, but this haphazard method of control is surely insufficient as a guarantee of the system's accuracy. It can and should serve as a backup to the normal record-keeping operations, but it cannot substitute for prompt, efficient, and accurate recording of wage data.

In addition, this procedure does not affect another delay which has a direct effect on the amount of benefits being paid to Social Security recipients who continue to be wage-earners. Under the law, these recipients' records should be checked periodically and their benefits recalculated to reflect the wages they have earned and the taxes they have paid since the initial computation of their benefits. However, this recomputation process, like the initial posting of wages, has suffered major delays since 1978 and remains several years behind.

There is another aspect to this problem which I find quite disturbing. It is possible for individual Social Security account holders to check on the accuracy of their wage records, as did the employees of the Register-Pajaronian. However, because the Social Security Administration has failed to notify those affected or potentially affected by these delays that a problem exists, the general public—that 90 percent of our working population which can expect to receive Social Security benefits someday, if they are not doing so already—has no reason to suspect the existence of this massive backlog, and therefore no reason to request a check of their records. The SSA, in other words, has avoided the one reasonably certain method of ensuring the accuracy of this system: review of wage records by the wage-earner himself.

I would hope that the Subcommittee will continue to investigate these delays in posting wages, and will solicit SSA's help in answering the many questions which remain, including: the number of errors and omissions in the SSA's records for the years 1978 through 1981; how many of those errors were caused by inadequacies in the record-keeping system, rather than errors in the wage records submitted to the SSA; the amount of current and potential underpayment due to calculation of benefits by incomplete wage records; the cost of correcting these errors; and the cost of updating and modernizing the Social Security record-keeping system to ensure that these backlogs do not recur in the future.

At a time when the fiscal integrity, the stability, and the very survival of the Social Security system are seriously threatened, I do not believe we can afford the kind of delay and inefficiency which I have tried to outline for you here today. The employers and workers who bear the ever-increasing burden of the Social Security payroll tax, and who depend on the Social Security system for their own security and that of their families in case of old age, disability, or death, deserve a system that is, at a minimum, up-to-date and accurate. I welcome the efforts of the Chairman and members of this Subcommittee to achieve that goal.

Chairman PICKLE. Thank you, Mr. Panetta.

This subcommittee does not condone in the least the actions of the Social Security Administration's failure to post these wages.

If the American people, the people in general have a feeling that their wages have not been posted or that they are 4 or 5 years behind, there will be an alarming repercussion throughout the Nation.

The Commissioner, who left just a minute ago, indicated that in some instances the employer had not submitted full and correct information, and that this might have caused delays in the posting of some of these wages.

Is that true in your particular case, or in any of the cases that you have submitted for review?

Mr. PANETTA. It is not true in the instances that I am aware of.

As a matter of fact, the head of the newspaper that ran into the problem does income taxes for individuals in the area himself, and has always posted his earnings. He is one of these people who is very conscientious about doing that and he has his records in order, and they did not post his earnings for that year.

Chairman PICKLE. You listed several organizations that specifically submitted inquiries.

We will follow through on those particular cases and try to get for you an accurate date. If, in fact, they have not yet been posted, we will try to get an accurate date when they will be posted, and another followthrough of when they have been posted.

What is happening in your distict is apparently happening throughout the Nation, and this committee must give high priority in seeing that this problem is cleared up.

I am sorry that this is true, because I am going to get inquiries from my district.

The Commssioner earlier said that he recommended that people go into their social security offices and sign an earnings request card, to see if their wages had been posted. But you cannot expect all these people will go down and make inquiry; they all assume that they have been posted.

I appreciate you bringing this to our attention.

Mr. PANETTA. My greatest concern, Mr. Chairman, having worked in the bureaucracy for a few years myself, is that once this kind of backlog develops, it get worse, not better.

They are continuing to get wage reports in and continuing to fall behind, and unless they make a major effort, a concentrated effort at getting their records in order, I envision them continuing to fall behind. That is the greatest danger I see right now.

Chairman PICKLE. Mr. Heftel.

Mr. HEFTEL. I commend the gentleman for his continuing concern for these problem areas that we have, but I could not help but wonder if the newspaper shared this information with your community.

Mr. PANETTA. In the headlines.

Mr. HEFTEL. Yes, of course. I had a feeling we would all be more in touch with the subject if—well, as a practical matter, social security could send a card to every wage-earner saying, "Send it back to us if you want to know whether or not you are properly posted." If 30 million people decide to do that, you will have years of backlog on the request.

Mr. PANETTA. Right.

Mr. HEFTEL. Somewhere, the system is inadequate, and I think for the subcommittee, and I think for the Commissioner, the subject has not been properly addressed.

There has been no admission the system is inadequate, and this is what must be done to make it adequate.

Do you see any sign that we are ready to say that is the case, and it must be remedied?

Mr. PANETTA. Well, I would almost prefer that option rather than telling people to send in their cards to check on their individual reports, because you are right, that takes time. Every time one of those cards comes in, somebody who could be working on posting has to go back to that particular record and find out whether something has been posted to that individual.

I almost prefer that the Social Security Administration say, look, give us 3 months to update, we are going to try to update all of our past records, and, as of that date, begin current reporting. Right now, all they are saying is, if people have a problem, have them send in a card and we will give them the information. People will be sending cards in for the next 2 or 3 years, and it is not going to improve the system.

So, I would almost prefer that the subcommittee say to the Social Security Administration, we expect you to be updated as of a date certain. They have a new computer system going in, and it takes time to put it into place, but I don't see why they can't work around the clock to get these records updated.

This is extremely important to millions of Americans.

Mr. HEFTEL. The impression I have is they are not going to be physically equipped to do what you are talking about and are not ready to say we really can't; we need 2 years, 3 months.

Do you think they are willing to admit that they have this inadequacy and they have to have tools and dollars if they are going to perform in the way you are talking about?

Mr. PANETTA. I am not sure they are prepared to admit that kind of inadequacy, but I can tell you very frankly that I think the Congress would be prepared to support whatever it takes to administer the program correctly.

We are going to have a hell of a problem trying to decide how to deal with the problem.

There is no excuse for administering the program improperly.

Mr. HEFTEL. The Commissioner and the system are not ready to admit what we are discussing, and, therefore, you can't get at that problem.

Mr. PANETTA. That is part of the problem. If they are not willing to open that door and admit that they have a problem, and they need from the Congress whatever it takes to update their equipment or the additional workers they need to do the job, then we will have a tough time getting to first base.

Chairman PICKLE. Mr. Shannon.

Mr. SHANNON. I want to thank you, Mr. Panetta.

You have not only focused our attention on this specific problem, but also on the general problem of what happens to the administration of this system whenever you make any changes at all.

Concerning your point that the American people support whatever it takes to get the system operating efficiently, I think you are absolutely right.

The administrative costs have been very low historically, and we have to take a closer look at that.

I thank you for your testimony, and hope that we can address this particular problem and the more general problem of making sure that social security is adequately administered.

Chairman PICKLE. Mr. Shannon, I think that when Mr. Simmons comes back this afternoon, we ought to get an estimate of when they can get this accomplished, and we must then demand that this be complied with or else we have to set a time of our own. This cannot go on afloat like this.

Mr. PANETTA. Mr. Chairman, I don't know whether you asked them just how much of a problem there is. It would seem to me that the first question they ought to have some sense of is just how bad is the situation, because it is popping up every place, and I have a sense that it is much worse than they admit. For that reason, at the very least, they ought to inform the public as to the extent of the problem they are facing in terms of backlog.

Chairman PICKLE. Mr. Gephardt?

Mr. GEPHARDT. Thank you for coming. Your testimony really emphasizes the severity of the problem. I read the Commissioner's testimony, and he does acknowledge this tremendous problem in income crediting or posting to accounts. He gives the reason. The first reason, they went from quarterly reporting to annual reporting. Second, they had to change their whole software and figure out entry level benefit formulas.

Third, they had trouble with employers putting in the information in the correct way, but their biggest problem apparently was having the proper computer hardware and software to get this done.

In 1978, it took 39 months to complete the processing; in 1979, 27 months; in 1980, 15 months.

Then he makes a suggestion that we ought to tell all of our constituents to check their records to make sure they are right.

While he may be right, if we go telling people to check to see if their records are right, we will have a panic in the country.

We have got to spend the money from the social security fund to make sure the program runs right. With all of the other problems we have in social security, the last thing we need is for someone to believe that we cannot run the program, and that we are not running it fairly, and that people are not getting credit for money they put in the system.

I second the chairman's thoughts.

We have believed all along that we were getting all the support we could from the Social Security Administration to buy the hardware and software they needed. If there is some struggle going on between the SSA and OMB, we ought to try to get it resolved.

I sense OMB does not want to spend the money out of the fund because it has an effect on the overall aggregate deficit.

We have got to get it done, or we are going to lose people's faith, and then we really are out of business.

Chairman PICKLE. When the Deputy Commissioner, Mr. Paul Simmons, returns this afternoon, we will pursue this fully. We will see if we can't get a definite commitment.

Mr. Panetta, I thank you. We are embarrassed that, well, we realize how deep this problem is. We have no definitive time to update it.

Our colleague, Mr. Miller, he is involved in a markup with another committee.

The Chair would like Mr. John Harris, Mr. Daniel Kearney, and Mr. Percy O. Daley to come to the witness table. Mr. Harris is president of the National Council of S.S.A. Field Operations Locals. Mr. Daniel Kearney is national vice president of the New England District, and Mr. Percy Daley is president of the AFGE Local 1164, of Fitchburg, Mass.

Since each of you have prepared testimony, I will recognize you in the order you appear on the witness list.

STATEMENT OF DANIEL J. KEARNEY, NATIONAL VICE PRESIDENT, NEW ENGLAND DISTRICT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. **Kearney**. Might I make some opening remarks, and then I will introduce Mr. Harris and Mr. Daley.

Mr. Chairman, let me say this first: The American Federation of Government Employees represents about 700,000 Federal employees worldwide.

We do not represent any employee who is closer to the public than the social security employee.

Mr. Harris is president of the Council of Social Security Locals, and he represents people in some 1,400 district offices, and next to me on my right is Mr. Percy Daley, also vice president of that council, and president of local 1164, New England, which represents some 80 district offices.

Debt collection was always an ongoing task where the recipient who was overpaid could come into an office to discuss that overpayment with an understanding social security employee. This administration, however, decided that collections were not being accomplished with dispatch.

The administration's plan was to set up separate debt collection centers, where employees would be assigned and whose only duty was to speed up collections. They were given instructions for a new approach. A series of letters were developed threatening the annuitants with such things as suits filed by the Justice Department, they would be charged interest—which is illegal- and most of all, the recipient was not being informed of their rights to appeal.

Our members objected, even though they were going to be rewarded with the dubious distinction of being declared "Debt Collector of the Month." AFGE tried to sit down and bargain on the impact of the new regulations. Management refused.

Morale reached a new low among those employees, and the only way the union could bring management actions to light was to appeal to their Congressmen. Thank heavens, they are listening.

Thousands of letters from our members were sent to the Congress, citing the tragedies caused by the new regulations.

In conclusion, I would like to cite management for not consulting with the union and asking the workers, who are closest to debt collection, for any ideas and opinions as to how to improve the collection rates without resorting to badly advised procedures.

Instead, management turned to a commercial debt collection agency and asked them to help develop "debt collection techniques." The expertise was in-house and not with a collection agency whose only concern was the 50 cents they would earn for every dollar collected.

Mr. Harris has a lot more to testify on, and I turn to Mr. Harris.

Chairman PICKLE. I wish to thank you, Mr. Kearney.

I am going to ask you gentlemen to keep your seats and ask you to yield to our colleague who just came in.

Mr. Miller, the panel has just started. There will be two other speakers and maybe some questions to follow.

As you are in the middle of a markup, we will recognize you now.

Is that agreeable to you?

STATEMENT OF HON. GEORGE MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MILLER. Thank you, Mr. Chairman. I wish to thank the panel for allowing me to appear at these oversight hearings on the social security system.

These hearings provide a welcome opportunity for looking into the serious concerns which many Americans, and especially our senior citizens, have about social security. We can neither afford to delay addressing those concerns, nor look to the simplistic and punitive reduction in benefits repeatedly endorsed by the Reagan administration as the main means of correcting any shortcomings in social security.

We are all aware that a major crisis is looming for social security, not in 2013, when the baby boom retires, but in July, when the retirement fund could become insolvent. Neither Congress nor the administration can evade the responsibility of devising revisions in the program to assure a long-term health of the social security system. Like most of this subcommittee, however, I do not believe that reduction of benefits to current retirees is a rational or equitable solution to this situation.

But we need not wait until 2013 or even until 1983 to find an example of unfair and unjustified denials in benefits to deserving social security recipients.

According to figures provided to me earlier this year by the Social Security Administration, itself, over 3½ million Americans are being denied nearly $3 billion in benefits they have paid for and which they deserve.

Together with 25 of our colleagues, I have called upon the GAO to investigate the reasons for, and the extent of, this very disturbing denial of benefits to millions of our senior citizens.

Most of the victims of this underpayment are seniors who continue to work beyond the date that they begin to collect social security benefits. As you know, the Social Security Act requires the annual review of those who continue to work in order to determine any changes in their primary insurance amount above that level which was originally computed. Any increase in benefit levels are supposed to be passed along to deserving recipients the following January.

Now, this subcommittee has already heard testimony documenting how diligent the Social Security Administration can be when they are looking for people who owe money to the Government.

Unfortunately, for millions of elderly Americans, social security appears to be a good deal less rigorous in searching for people who are owed money by the Government.

According to information provided to me this summer, millions of beneficiaries will receive payment due them since 1978 and 1979 only this fall. Over a million more will have to wait until 1983 for these benefits, which will then be 3 to 4 years overdue.

Social security has yet to estimate when benefits from earnings in 1981 and 1982 will be figured into benefit levels.

These millions of senior citizens have been denied access to their own money for years. And when they are paid the benefits, they will not receive any interest on the late payments, which constitutes another loss of tens of millions of dollars.

Now, I understand that the response of the Social Security Administration to these accusations is that their computers are simply incapable of processing the additional earnings on any quicker basis.

That is not a satisfactory answer.

This is a problem which has been known to the agency for years, and yet little has been done to correct the underpayment situation. Have the updated computers been ordered? When can they be installed, programed, and operating? Has the agency's request for more efficient machinery been delayed or disapproved, and, if so, by whom?

I certainly understand that it will be costly to update the Administration's computer capacity, and it is reasonable to ask, "How expensive?"

Will it cost more than $3 billion that senior citizens have been denied in social security benefits to which they are entitled? I would doubt it.

I suspect that if the administration pursued funding for Social Security Administration with the same vigor they supported massive military spending increases, the money could be found without too much difficulty to assure that senior citizens will receive their retirement benefits on time, and in the proper amount.

Last, I am not impressed with social security's claim to be doing all that is possible under the circumstances. Any retiree can request recalculation of his or her rates at any time. Many senior citizens, knowing of this underpayment problem, would likely request a review of their benefit levels.

But the Social Security Administration has failed to notify beneficiaries of the backlog in recomputation of the earnings record, and few retirees had thought to question their benefits level until I alerted them in June. Since that time, I have received letters from retirees from throughout the country thanking me for alerting them of their possible underpayment. In each case, these men and women wrote, they had requested recalculation of their earnings record, and secured a higher, more accurate level of benefits.

While I am pleased to have been able to bring this situation to the attention of these senior citizens, as will this hearing today, the

Social Security Administration, itself, should alert all beneficiaries of the possible underpayment in their checks, and inform them of the appropriate way to seek a recomputation of benefit levels.

Mr. Chairman, these hearings are appropriately focusing on some of the long-range problems in social security to which we must address ourselves. It is important, as we search for those long-range solutions, that we not ignore the immediate problems affecting millions of Americans who are not receiving the benefits for which they paid, and which they deserve.

I am pleased to have the opportunity to share these views with your subcommittee today, and I certainly shall communicate to you the findings of the investigation of this underpayment problem when the General Accounting Office delivers me their report later this year.

I would like to add, Mr. Chairman, that you have raised the consciousness of the Congress on this issue. We are going to have to address this problem within the next couple of months if benefit payments are to continue throughout the next fiscal year.

My testimony points out that the liability of the social security system may be greater than we had been led to believe. Making up for these underpayments may affect the substantial question of how much money we are going to have to put into this system to make sure that it is solvent through the next fiscal year. It is not a job that we look forward to lightly. Nevertheless, if these people's payments are going to be current and in the proper amount, we are going to have to recognize that there may be billions of dollars more in liability than we had been led to believe.

I appreciate having the opportunity to testify, and thank you for making this time available to me to express these concerns.

Chairman PICKLE. Mr. Miller, we appreciate your interest, the testimony, and the facts that you have brought to the attention of the Congress.

When Mr. Panetta testified before us, a little earlier this morning, the subcommittee had gone into some detail about this question. You are absolutely right; there are a lot of records not being posted which result in underpayments to beneficiaries. It is a huge problem to settle, because we have some 36 million people involved, and it takes anywhere from 24 to 36 more months, they contend, to get these wages posted.

This afternoon, when the Deputy Commissioner of the Social Security Administration returns, this committee is going to try to establish with him his schedule, his plans, and his policy. Then we will try to pass judgment in either accepting that or mandate a more specific time.

We cannot let this problem grow and fester.

Mr. MILLER. Mr. Chairman, if you are going to be able to elicit that kind of specific response from the Administrator this afternoon, that alone will be very helpful to people who are concerned about when these recalculations are going to take place and will also serve notice on us what our obligation is going to be in terms of money required to meet this short-term deficit.

I would hope that you are very successful this afternoon in that effort.

Chairman PICKLE. Do any of the committee members have any questions of Mr. Miller?

Mr. Jacobs.

Mr. JACOBS. George, are you aware that last year sometime the Social Security Administration was supposed to have borrowed some computer time from Texas to run some of these problems?

Mr. MILLER. I am not aware of that. We have been in touch with employees of the Social Security Administration who are afraid our concerns are a reflection on them, and they have given us printouts of when they have made requests of the computer and what the computer has told them.

It would baffle your whole thinking about the speed of the computer generation.

Mr. JACOBS. I believe there was testimony from the Social Security Administration to that effect last year, which raised a rather interesting question.

The question was: The U.S. Government had the capacity, or the resources, to provide sufficient computers. Why were there too few at the Social Security Administration, and why were there too many at the Air Force?

Mr. MILLER. I know something about the priorities of this administration, having gone through two supplemental appropriations in the last couple of weeks.

The technical capability to do what is necessary to provide for a properly computed payment is there. Either we have been remiss in not appropriating the money to the Social Security Administration, or the administration and the Social Security Administration have been remiss in not requesting it.

Mr. JACOBS. It probably requires a little look-and-see, I would think.

Mr. MILLER. Thank you very much.

Chairman PICKLE. Mr. Heftel, any questions?

Mr. HEFTEL. Just to thank the gentleman, is all.

Chairman PICKLE. Mr. Heftel was just thanking you, and I thank you. We are always glad to have Mr. George "Pay-As-You-Go" Miller join the committee.

Again, I thank the present panel for allowing Congressman Miller to present his testimony.

The Chair will recognize Mr. John Harris.

STATEMENT OF JOHN HARRIS, PRESIDENT, NATIONAL COUNCIL OF SSA FIELD OPERATIONS LOCALS, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. HARRIS. Thank you, Mr. Chairman.

I have a written statement with some attachments I would like to submit for the record.

I would like to respond to some of what I have heard while I have been waiting this morning.

Chairman PICKLE. Your testimony will appear in its entirety in the record. You may now proceed.

Mr. HARRIS. Thank you.

I am going to take my testimony a little bit out of order. The discussion in the last half hour or so has been about the annual reporting system, and I want to give you a little background as to how the problem has occurred and what the nature of the problem is.

It appears that there is some confusion on some of that.

In 1977, you enacted legislation to change from a quarterly system to an annual system. When you did that, you automatically bought yourself some delays in postings where formerly we had a total through process of 9 to 12 months, receiving the record of the reported earnings, recording it, and recomputing benefits, and making adjustments to benefits where people were overpaid.

During that entire process, when we went over to the annual process, we immediately bought ourselves at a minimum a 10-month process.

For a variety of different reasons, a lot of which have to do with really gross mismanagement, the Social Security Administration found themselves in a situation where it was taking them 28 to 36 months.

In point of fact, just the first step of the process, the reporting of the earnings, as they have admitted, took them 37 months for the first year, 1978.

They have now improved that to 15 months, but they still have three more steps in the process to go.

Chairman PICKLE. What is a reasonable time, Mr. Harris?

Mr. HARRIS. Well, when I get to a point of solution, I will suggest something about that.

Chairman PICKLE. The Chair will abide by your schedule.

Mr. HARRIS. I wanted to make a special point, though. There seems to be some confusion about posting wages versus recomputation. They are two different problems.

Getting the information onto the record and transmitting over to the account is one problem. It has its own work force and computer problems which I can describe, et cetera.

The problem, then, of once they get the benefits or the new earnings over, so that they can recompute benefits, that is another problem. That is known as AERO, "Automatic Earnings Readjustment Operation," or recomputation operation, correction.

They have been using a system called the automated job stream, and they have been having nothing but trouble the last 4 years. It results in delays in processing people's estimated earnings for retirement. Invariably, it has been causing massive over- and underpayments.

It is another problem that has to be viewed apart.

With respect to the actual posting of earnings, you have two solutions, Mr. Chairman, basically.

You can go back to quarterly wage reporting, which would not be necessarily a bad idea; you would have to contend with the impact of that upon the business community.

As far as our Government is concerned, you would be much more efficient and reduce our paperwork. We went to the annual reporting system to reduce paperwork and actually it increased our paperwork.

If we went back to the quarterly wage reporting system, we would be able to deliver the 9- to 12-month system again.

If you continue with the annual reporting system, you will have to expect a minimum of an 18-month delay. To optimize that, to be able to get to that 18 months, it is our position that what we have to do is go to using full-time workers. I don't know if you know this, Mr. Chairman; they are using seasonal employees. They only work them 9 months a year. We build into that automatically delays in backlogs for that process. Three months of the year, they are not there.

To make matters stranger from the union's point of view, it is not even cost-effective or cost-efficient. During the 3 months they are laid off, the Government pays them unemployment.

In other words, it would be just as efficient for us to have two-thirds of them at full-time.

The union does not say that there should not be something done on seasonal employment, but we submit that using 2,500 seasonal employees to be doing that is part of the reason we have the problem.

Chairman PICKLE. What would really be the time frame that you could reasonably expect, and how would you achieve it?

Mr. HARRIS. If you would like, and I will continue on the debt management issue—I might also say I am going to be submitting for the record some testimony that this union gave in April of 1980 about this problem to the Appropriations Subcommittee for HEW, and in that testimony we explained exactly how this thing went wrong, what went wrong with the annual reporting.

Regarding debt management, this union is on record as opposed to the debt collection practices.

Our testimony last month before the Select Committee on Aging condemned that practice, and I won't reiterate those objections that we had there.

I want to address some of the issues that the Commissioner has raised.

The Commissioner would have you believe that, for example, there is a devastating drain on the RSI trust fund. That is not true. When he took over his position and at the point he announced he was going to have this debt collection activity, we were recovering in cash and benefits 83 percent of the overpayments in RSI—and I don't believe we substantially improved on that—and it is a pretty good record. The remaining amount was, for the large part, waivers.

What Mr. Svahn and his colleagues would choose to do would simply diminish the number of waivers we grant and to collect more cash, but without regard to the question of people's fault or people's ability to repay.

That is the way this union views it, and the workers.

This union has long recognized that overpayment prevention and recovery should be improved.

We have in the past submitted recommendations to the Inspector General. We have in the past submitted them to the agency directly. We have offered to assist management, and we continue to offer our assistance to management and to Congress on this issue and toward that end I want to make some recommendations.

One, that the administration should abandon outright its current debt management practices and reinstate its previous practices, specifically the past practice of limited adjustment of benefits and the full pursuit of beneficiaries' rights to waivers, appeals and partial adjustment.

Second, the past practices must be supplemented by specific and increased resources devoted to the collection of truly delinquent overpayments.

I do not believe that those truly delinquent overpayments are very large, especially in the area of RSI.

In the area of the disability program, they are larger. By nature, it occurs because the overpayments of someone who is disabled and is said to have his disability ceased, he ends up with a retroactive overpayment of thousands and thousands of dollars which he probably is not able to pay.

Our recovery rate on the disability program is more like 43 percent, compared to the RSI at 83 percent.

If we could identify and have clear policy as to what a truly delinquent debt was, people who really were unwilling to pay and were not being cooperative, then I, the union, endorses the idea of increasing resources, increasing manpower, and focusing on that.

Third, Social Security should be given greater authority and resources to seek legal action and other sanctions against the truly delinquent.

There are certain kinds of things that are legitimate use of our authority in order to encourage the delinquent to repay. Penalties and interest which may be appropriate for the truly delinquent, not the ordinary overpayment which is not to our point of view a debt.

I believe the Social Security Administration must report to this subcommittee specifically what it is going to do and spell out specifically when it is going to do it, and most of the changes they can deliver before the end of this year.

I have been asked to address the issue of administrative impact of the overpayment policies, the debt collection policies.

What basically has happened is, while we adopted this new initiative on debt collection, we did not adopt new resources to do it.

Specifically, the Commissioner has shifted resources away from claims work and other activities to do debt collection. This has taken the form of reassignments of hundreds of field workers away from claims work to do specialized overpayment collection.

Debt collection centers have been established in over three dozen locations, and virtually every field office has shifted its already limited work force toward the stated objective of collecting over $200 million in cash before the end of the fiscal year.

Ironically, he cut staffing in the field offices by over 1,100 positions in this fiscal year. In order to do that, he has ordered his work force to stop development of disability claims and to hold claims incomplete until disability is finally determined. The results of this upon those who are finally approved are delays in payments—up to 3 months in some cases—and reduced initial benefits because of failure to develop lag earnings.

Thus, while SSA would step up its initiative on overpayments, it is actually cutting its resources, and the inevitable result is cutbacks in public service, including even policy, knowingly causing delays in benefits and incorrect benefits.

Regarding contracting with private collection agencies, this union is expressly opposed to the proposal. Our objection is both institutional and philosophical. Obviously as an advocate of workers who could be adversely affected, we opposed such practices where our people could lose jobs.

We submit that our workers are better trained and more capable than any in the private sector to carry out the mission of the Agency, and, moreover, are motivated by conscience and dedication to protect beneficiaries and the trust fund, and are not motivated by money incentives to compromise either beneficiaries or the trust fund.

Collection based on a percentage of the take is inimical to the mission of the Agency, and we submit that contract workers would not be here today, as we are, to testify to the abuses of their collection techniques; their self-interest mitigates against that special cause which we, as public servants, share with Congress.

We think that SSA has not and cannot justify such a contract on any grounds, including cost efficiency, and we believe that inherently such a contract violates the principles mandated by OMB Circular A-76.

Specifically, you would violate A-76 because the right to waivers, the right to appeals, is inherently a governmental function and should not be something that we surrender to a private sector organization.

[The prepared statement follows:]

STATEMENT OF JOHN HARRIS, PRESIDENT, NATIONAL COUNCIL OF SSA LOCALS, AFFILIATE OF AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)

Mr. Chairman: My name is John Harris. I am president of the National Council of Social Security Field Operation Locals, an affiliate of the American Federation of Government Employees (AFL-CIO). My organization is the labor union representing over 35,000 workers in over 1,300 field offices of Social Security across the Nation.

I have been asked to testify today about two issues: First, debt collection practices in social security, and second, annual wage reporting and its impact on the Social Security Administration.

The union is on record opposed to SSA's current debt collection practices. In our testimony before the Select Committee on Aging this past Monday, we detailed the current practices and their adverse impact on beneficiaries. A copy of that testimony is attached. I will not repeat that here. But I want to briefly characterize our objections.

Basically, the union believes that SSA has caused widespread abuse of beneficiary rights by its fundamental shift in philosophy. Where once an overpayment was treated as a payment error which at least presumptively is not clearly the fault of the overpaid and from which the beneficiary may be relieved of liability where he is not at fault, overpayments are now treated as debts—in full the meaning of that word, the overpaid is treated as debtor who has a moral obligation to repay the total overpayment immediately in cash.

This policy has not received the widespread public support that the Commissioner expected for the simple reason that the American public is not ready to accept that kind of guilt and culpability when they have been victimized by a payment error that is not their fault.

For the record, the committee must be told that most overpayments under RSI (over 80 percent) are recovered in cash or benefits and the American public has been generally very responsible and responsive in our overpayment recovery. Tactics such as SSA now uses are not necessary and the public doesn't deserve to be treated as it has been treated.

Nevertheless, the union has long recognized that overpayment prevention and recovery should be improved. We have offered to assist management and have offered our assistance to Congress. We repeat that offer here and toward that end make the following recommendations: (1) SSA should abandon its current debt management practices and reinstate its basic overpayments polices of the past, including the past practice of limited adjustment of benefits and full pursuit of beneficiary rights; (2) the past practice must be supplemented by specific and increased resources devoted to the collection of truly delinquent overpayments; (3) SSA should be authorized greater authority and resources to seek legal action and other sanctions against the truly delinquent; (4) SSA must submit a report on these actions and their compliance on the subcommittee recommendations to this subcommittee not later than January 31, 1982. As we have said the union stands ready to assist management in any way we can toward fulfilling these terms.

The subcommittee has asked me specifically to address the issue of administrative impact and the proposal by SSA to contract with private collection agencies.

Regarding administrative impact, the union notes that SSA's debt collection initiative was not accompanied by the full resources to do the job. Specifically, the Commissioner shifted resources away from claims work and other activities to do debt collection. In real terms, this has taken the form of reassignments of hundreds of field workers away from claims work into specialized overpayment collection. Debt collection centers (so-called) have been established in over three dozen locations and virtually every field office has shifted its already limited work force toward the stated objective of collecting more than $200 million in cash before the end of the fiscal year.

Ironically, the Commissioner has cut staffing in field offices by over 1,000 positions in this fiscal year. In order to do that, he has ordered his workforce to stop development of disability claims and to hold claims incomplete until disability is finally determined. The results of this upon those who are finally approved are delays in payments (up to 3 months in some cases) and reduced initial benefits because of failure to develop lag earnings. Thus, while SSA would step up its initiative on overpayments, it's actually cutting it's resources and the inevitable result is cutbacks in public service including even policy knowingly causing delays in benefits and incorrect benefits.

Regarding contracting with private collection agencies, this union is expressly opposed to the proposal. Our objection is both institutional and philosophical. Obviously as an advocate of workers who could be adversely affected oppose such practices where our people could lose jobs. We submit that our workers are better trained and more capable than any in the private sector to carry out the mission of the agency and moreover, are motivated by conscience and dedication to protect beneficiaries and the trust fund and are not motivated by money incentives to compromise either beneficiaries or the trust fund. Collection based on a percentage of the take is inimical to the mission of the agency and we submit that contract workers would not be here today, as we are to testify to the abuses of their collection techniques; their self-interest mitigates against that special cause which we as public servants share with Congress.

We think that SSA has not and cannot justify such a contract on any grounds, including cost/efficiency, and we believe that inherently such a contract violates the principles mandated by OMB Circular A-76. If the rights of beneficiaries are not inherently a government function which is prohibited from contracting, I don't know what is.

The second issue about which I have been asked to testify is annual wage reporting. Again, it is a subject about which this union has testified before and we will be providing copies of those documents to the subcommittee shortly.

In 1977 the Congress enacted legislation which changed the reporting of F.I.C.A. wages from a quarterly to an annual process. The intent was to reduce Federal paper work. Whether or not the reporting process has reduced the paper work of the business community is unknown, but annual wage reporting has in fact increased paper work of the government, has complicated the process, and has adversely affected the social security beneficiary and the common worker. When the reporting of F.I.C.A. wages was quarterly, the total through-process was 9 to 12 months. Within that time SSA was routinely able to credit workers wages to their accounts, recompute benefits (if appropriate), reconcile actual wages to estimated or unreported income and adjust benefits accordingly and finally transmit necessary data to IRS. Today under annual reporting that same process takes 28 to 36 months and in fact much of this process is still incomplete for earnings as far back as 1978.

In real terms the impact of this is felt by beneficiaries in loss of immediate benefits. While eventually, perhaps 2 or 3 years later, SSA will pay the beneficiary his due, he is missing in the meantime $10, $20, $30 or more from his monthly check. Preliminary G.A.O. estimates show that as much as $2.1 billion is due the American public for benefits unpaid since 1978. On the other hand, there are substantial overpayments, perhaps in the hundreds of millions of dollars, undetected and unrecovered because SSA has not completed its reconciliation of reported wages to the records of beneficiaries. In fact SSA has not yet begun the reconciliation process for 1978 earnings; workers have told the union of disabled recipients working for more than three years before they were inadvertently detected. We understand Social Security has decided that so much time has elapsed that they must entirely defer such reconciliations for SSI recipents for the earnings of 1978, meaning of course undetected and unrecovered overpayments and underpayments both.

In addition to these concerns for the program, the union has objected to the use of seasonal employment to conduct annual reporting. Our study has shown that employment practice is less effective and efficient than full time employment and that it contains hidden costs which are not productive. For example, seasonal workers must each year be retained a loss of 2 to 4 workweeks per person of production time. Those hired under the seasonal program are hired at lower qualification standards than the full time equivalent; many, it is said, are not able to type, even though the job is one that consists mainly of typing.

When laid-off seasonal workers are paid unemployment benefits for almost the entire term of their layoff at a cost to the Government of roughly two-thirds of the payroll had SSA chosen to work them full time instead.

The union does not utterly opppose seasonal employment for some functions that are truly seasonal. But we believe this is a full time job that demands full-time workers. The mere fact that SSA is so poorly managing as they are seems sufficient testimony to this.

The union believes that these workers ought to be made full time workers, properly trained, and devoted to impove the management of earnings records. We believe that step will be a major benefit to the program. However, we must also question whether we can truly resolve these problems without restoring quarterly wage reporting. The annual process seems to engender even optimally—utilizing full-time staff—a lag period for processing of up to 18 months, that is, roughly twice the former process. This can mean delays in detecting a disabled beneficiary working unreported and earnings amounts which belie his disability for easily 2 years. The difficulty of collecting such overpaid benefits, amounting in such cases to thousands of dollars, is a source of some of the problems on debt management referred to earlier. Similarly, 2 years minimally will go by before benefits are recomputed and properly paid.

This subcommittee should investigate and carefully consider the option of restoring quarterly wage reporting. On balance, the interest of the program may outweight any additional administrative costs to government or business.

I hope our testimony has been of some help. If we can be of service to the subcommittee again, we are willing to help in any way we can.

[ATTACHMENT]

TESTIMONY OF JOHN HARRIS, PRESIDENT, NATIONAL COUNCIL OF SSA FIELD OPERATIONS LOCALS, AFFILIATE OF AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)

Mr. Chairman, My name is John Harris and I am President of the National Council of Social Security Administration Field Operations Locals, affiliated with the American Federation of Government Employees (AFL-CIO). My organization is the labor union for 35,000 Social Security workers in 1,300 field offices of the Social Security Administration across the country. I am myself a claims representative from one of those offices.

Today I speak on behalf of those workers, as one of those workers and as their union representative. I am here to discuss some recent practices of the Reagan Administration called generically "Debt Management," and the way it has affected Social Security clients and the workers.

Last month your colleague, Barney Frank, the good Congressman from Massachusetts, held a hearing on this subject and he revealed that Social Security has been engaging in coercive tactics, designed to scare money out of people who may have been overpaid by the Social Security Administration. As he rightly observed, the government has an obligation to efficiently collect money from people who really owe to us, but the government must not abuse the rights of the people it serves. The subject of this hearing is the abuse of those rights.

In April, 1981 President Reagan issued a directive to all federal agencies calling upon them to be more aggressive in the collection of overpayments. He required them to submit to OMB comprehensive Debt Management plans. In July, 1981 SSA submitted its plan. That plan provides for the following:

A national debt management project and a national project manager with support staff;

Establishment of debt collection centers;

A new philosophy on overpayments;

Contracting with private collection agencies to collect overpayments;

Contracting with credit bureaus in order to affect the credit rating of the overpaid.

At this point most of these plans are well underway. Debt management is now a major goal of SSA. It is second to none in program objectives. Social Security's program instructions have been rewritten; its staff retrained, workers have been assigned to dozens of debt collection centers. Virtually every office in SSA has reassigned a share of its workers away from claims and postentitlement to specialize in overpayment recovery. The Commissioner has set an ambitious cash goal for his deputies and regional commissioners. That goal exceeds historical cash recovery by over one hundred fifty-five million dollars; 30 percent of that comes from recovery of those cut from disability rolls in Title II (Social Security); about 50 percent comes from SSI recipients, both the aged and the disabled. These goals have been formalized in performance standards, and, if met, can result in salary bonuses of up to twenty thousand dollars.

The entire focus of this new initiative—which formally commenced in January and February, 1982—is on quick cash recovery. In order to stimulate cash recovery, SSA has rewritten its instructions and retrained its personnel to think of all overpayments as debts, regardless of the personal blame or innocence of the beneficiary who is overpaid. SSA workers are told to emphasize that the overpayment is a debt that demands repayment. Training even went so far as to tell workers not to pursue beneficiaries' allegations that they are not at fault in causing overpayments or that they are unable to repay. The worker is told to think of herself as a bill collector and is told not to remind people of their rights to request that recovery of the overpayment be waived.

Samples of that training include these verbatim examples of how to conduct effective collection:

SAMPLE INTERVIEW NO. 2

The difficulty in trying to collect from someone subsisting on the bare minimum is compounded by the debtor's damaged pride and sense of futility ("Who's going to hire a 45-year old with a heart condition, and in these times?"), and, because the debtor waivers between belligerence ("If you knew anything about me, you wouldn't be asking such a stupid question.") and self-pity ("You know the other day I had the thought that, realistically, I'm through as the family breadwinner. My family would be better off without me."), the collector's resourcefulness and adaptability are tested. The collector shows sensitivity for the debtor's concerns but keeps the conversation from drifting by concentrating on what the debtor can do to repay his overpayment; for example, she suggests Medicaid as an acceptable alternative to paying a burdensome health insurance premium ("Medicaid is meant to help people like you who, through no fault of their own, are faced with extraordinary medical expenses and have only limited resources. The program will relieve your wife of the $140 burden. The money that is not used to pay the monthly premium, don't forget, can be used to repay your debt") without becoming embroiled in an argument about welfare or shattering the debtor's fragile self-esteem.

SAMPLE INTERVIEW NO. 4

The debtor is a sympathetic figure. She is elderly, has trouble seeing and, apparently trouble hearing, and she is recovering from a serious hip injury. She is somewhat distraught at the loss of her independence. The collector recognizes the debtor's limitations and makes allowance for them, but does not lose sight of the objective, which is to collect the overpayment. Through careful questioning, the collector supplements information already on record with inquiries about the debtor's resources (bank account, house, car) and encourages the debtor to participate in the solution to the overpayment. Rather than bluntly proposing that the debtor sell her car, he helps the debtor to see that, under the circumstances, the car is an unnecessary expense and is expendable:

Collector: Do you still have the use of the car?

Debtor: I haven't driven since I broke my hip. The doctor says that with the bad hip and cataracts I won't be able to drive anymore.

Collector: Are you still paying the insurance on it?

Debtor: Why, yes. (pause) It doesn't make much sense keeping it, does it? I should go ahead and sell it now. It's not new, but I took good care of it. It should bring something.

Collector: That would be one way to repay the overpayment. . . . By selling your car you could probably repay the entire amount you owe the government immediately.

To go with this new attitude, SSA made radical changes in their overpayment procedures. They redesigned their initial overpayment letter. The letter now demands immediate and full refund and threatens to withhold people's entire benefit check, if payment is not made in 30 days. SSA removed all reminders of appeal rights from any follow-up letters. They added clauses to letters threatening interest, penalties, and fines. Letters have even threatened the termination of Social Security checks because of old SSI overpayments.

Because the object is to "collect more money" (to quote the Commissioner), we have also gone back to people who are already paying back overpayments to demand more money. Our letters tell them that we want them to pay it all back right now and if that's not possible we want them to pay more, or we'll be forced to take legal action. Copies of such letters have been attached.

In addition to training designed to discourage the waiver of overpayments and instructional changes designed to emphasize cash recovery, SSA has also adopted administrative vetoes of grants of waivers to SSI recipients. While formerly a decision to grant a waiver was based on a direct interview with the client, SSA has now authorized its management to overturn those decisions without any investigation. Supervisors are reversing the judgment that clients are not at fault in causing overpayments without ever even talking to the client. The clear purpose of this policy is to stimulate more cash recovery at the expense of people who are otherwise not at fault in causing the overpayment.

Most of these practices are self-evident abuses. But I want to specially note the new policy of taking away a person's full benefit check to recover an overpayment. (See attached copy of instructional change.) Half of all overpayments are to people who will continue to get benefits; this policy change will affect over one million Social Security and SSI recipients each year, and could, if fully effectuated, deprive them of hundreds of millions of benefits. Because substantial numbers—probably more than half of these individuals—have no other income, this policy hurls them into the most abject poverty. For those on SSI this policy is especially horrid, because these are people who are already in poverty and whose benefits often are not sufficient for the barest subsistence. Moreover, if a person's SSI check is withheld and he receives support from others to tide him over, that support will count as a new overpayment. A vicious cycle of overpayment and benefit cuts starts from which there is no real escape, except perhaps local welfare and that is increasingly unavailable.

In actual practice workers are reluctant to withhold peoples' benefits, in spite of—even in defiance of—the Commissioner's policies. And so usually benefit reductions are only a portion of total checks. But workers complain bitterly about the policy, and believe it is inhumane to send such notices to aged, infirm and impoverished people. Its only value and its real intent is to terrify them. It does. Workers have told me of many-a-tearful interview, even heart attacks, and sometimes physical threats against them by frightened clients. Add to this the fact that many of our clients—especially SSI recipients—are really unable to read, let alone understand, SSA's letters and their procedures, you have a spectacle of unjust intimidation in such a policy. The policy should be immediately repealed.

Anticipating that the Commissioner will defend himself by alleging that the so-called outstanding debt is monstrous and will claim that as much as $1.7 billion is owed, I want to comment on the nature of these overpayments and the true character of that $1.7 billion. First of all, most of that alleged debt is not something which is delinquent but represents the ongoing collection of overpayments. We are talking here about newly discovered overpayments that are timely and routinely recovered by adjustment to benefits. We are talking about on-going collection of overpayments from people whose benefits have stopped but who have agreed to repay them. Included in SSA's figures also are such routine operations as annual earnings enforcement and the offset of Social Security underpayments by SSI overpayments. On the face if it, then, the alleged debt is misleading. Its significance is further diminished when you recognize that this alleged debt is a compilation of all outstanding monies owed SSA; these overpayments represent an accumulation of years and years of program expenditures and in the end amount to less than one-fourth of 1 percent of benefits expended over that period.

All this underscores the major flaw in this so-called debt. The Commissioner would have you believe that this monstrous sum is a debt and by that phrase we would commonly suppose it is money that hundreds of thousands of ne'er do wells and deadbeats owe us, the good citizens of the United States. In reality we are talking about common payment errors; very very few of these are fraudulent; many are the fault of the Social Security Administration. And for the most part people do pay them back, even when it is not their fault that they were overpaid. The figures the Commissioner is brandishing is largely a testimony to the honesty of the American public and it is not—I repeat, is not—justification to adopt the abusive practices SSA has adopted, if indeed anything could justify those abuses.

When the Commissioner made up this $1.7 billion figure, he also threw into it all those past overpayments which because of poor accounting practices were not properly written off. Some of these were overpayments whose recovery had been waived; some were determined uncollectable; all of them had been extensively developed but our computer records did not show their final disposition. The Commissioner has had us renew collections on cases that are over seven years old and which we have at least twice before developed; when doing it we do not review our prior records; often we have no idea of the cause of the overpayments; our notices do not even attempt to identify a cause. And yet on the basis of such overpayments, people's benefits are being terminated.

Now, by all the foregoing, I do not wish you to misunderstand the union's position. We share the objective of improving overpayment prevention and recovery, and we will work with management in a spirit of bilateralism to achieve that objective. But we question the zeal of this management initiative, its tactics and style and we are uncomfortable that equally important, even more important issues receive so little attention. We note, for example, that while the Commissioner complains of the alleged $1.7 billion debt to SSA by the American public, SSA itself owes $2.1 billion to the public in benefits due since 1978 for uncredited and unposted earnings. We note too that over $64 billion of earnings are still misassociated or improperly credited. We think of expedients adopted over the years to justify initiatives such as this debt management project that have diminished and betrayed good public service—the failure to check the theft of benefits by representative payees whom SSA has appointed; the hundreds of thousands of retirees, widows, widowers and children who have not been paid full benefits because SSA does not accurately compute their benefits; disabled workers receiving workers compensation whose Social Security benefits have been short-changed for administrative convenience. Surely these issues deserve the zeal of the Commissioner. But we do not see the same zeal in the pursuit of the Administration's debt to the public as we see in the Administration's pursuit of money it thinks owed to it.

TRANSMITTAL NO. 1
SSA Pub. No. 68-0202250
DATE

Audience: OS, OA, RR, FR, CR, SR DRT, TSCSR, CRTA, RECONR, RECOVR, CLADJ

Originating Office: SJ

PROGRAM OPERATIONS MANUAL SYSTEM
Part 02 — General
Chapter GN 022 — Overpayments
Subchapter 50 — Waiver Provisions for title II, title XVIII and Black Lung Overpayments

New Material	*No. of Pages*	*Discard*	*No. of Pages*
GN 02250.000-02250.225*B* (cont.)	22	Entire Subchapter	23

Background

One major thrust of the current Administration is to improve the management of debts owed the Federal Government. Specifically, each federal agency has been requested to recover or resolve currently delinquent debt and to recover or resolve all newly occurring debt as quickly as possible. The Overpayments chapter of POMS is being modified to infuse this new emphasis on the proper and timely resolution of debt. The chapter implements a new notice policy for all manual notices (i.e., always request full refund, propose 100% payment adjustment if full refund is not received within 30 days). The chapter provides standard administrative tolerances for the Title II, Black Lung, and Title XVI programs. The chapter also modifies waiver development by requiring waiver development and determination only upon request rather than as a standard procedure in the development of a requested reconsideration.

As this chapter is being released, major changes in the regulations and legislation that govern waiver procedures are being proposed. As regulations are changed or legislation is enacted, the procedures for waiver will be adjusted accordingly.

ACTION NOTE

Do not discard POMS Conversion Charts.

Explanation of Manual Changes

02250.150 Defeat the Purpose of Title II for RSDHI and Black Lung Overpayments

This section has been changed to eliminate specific consideration of whether completed recovery actions caused the beneficiary to go into debt for ordinary and necessary living expenses.

02250.155 Income Needed for Ordinary and Necessary Living Expenses

This section has been changed to emphasize that necessary and ordinary expenses should be evaluated in the context of the basic support — food, clothing and shelter — for which title II of the Social Security Act was designed to provide a floor of income.

U.S. Department of
Health and Human Services
Social Security Administration
Office of Operational Policy and Procedures
SSA Pub. No. 68-0202250
I.C.N. 996653

Effective Date: Upon Receipt

DEPARTMENT OF HEALTH & HUMAN SERVICES
Social Security Administration

Area 1 Debt Collection Center
PO Box C-81426
Georgetown Station
Seattle, Wa. 98108

Dear

The Social Security Administration has not received your installment payment of __________ a month since ____________. Your account now has been turned over to the collections branch of the Social Security Administration. This office works with the regional attorney's office to see that all debts are collected.

A payment of _________ which represents all money currently overdue should be mailed to this office immediately. Make your check or money order payable to the Social Security Administration and mail to:

Social Security Administration
PO Box C-81426
Georgetown Station
Seattle, Wa. 98108

Non-payment of this debt could make it necessary to suspend future benefits which may be due you.

Up until now no interest has been charged. Special legislation is being prepared that will require both interest and penalties to be added to the debt. It would be in your best interest to settle this matter now while the amount is still manageable.

If you have any questions concerning your payments please call,

Collections Representative
Area 1 Collection Center

DCC-3

DEPARTMENT OF HEALTH & HUMAN SERVICES
Social Security Administration

Refer to:

Region III
PO Box 8788
3535 Market Street
Philadelphia, PA 19101

Overpayment Balance: ______________
Agreed Monthly Payment: ______________
Date of Last Payment: ______________

We have been asked to contact all people that have been overpaid Social Security benefits to ask about increasing the amount of their monthly payments. Congress and the Administration are proposing to start charging interest on all overpayment accounts and taking action to send the delinquent accounts to a collection agency. We also believe that the time a person has to repay his debt will be shortened. We feel that if you voluntarily increase the amount you pay, or if you pay the entire balance you still owe, you will not be severely affected by these new provisions that will affect your debt to the government.

Please contact our office immediately regarding your overpayment status.

Sincerely,

Service Representative

Enclosure: Envelope

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

Refer to:

Suite 305
2300 9th Street S
P O Box 4710
Arlington VA 22204

557-0729

4/5/82

Overpayment Balance: [illegible].10

We are contacting all people that have been overpaid Social Security benefits. Congress and the Administration are proposing to start charging interest on all overpayment accounts and taking action to send the delinquent accounts to a collection agency. If you volunteer to begin repayment, or if you pay the entire balance you still owe, you will not be severely affected by these new provisions that will affect your debt to the government.

Please contact our office immediately regarding your overpayment status.

Sincerely,

Service Representative

Enclosure: Envelope

PAST DUE PAYMENT

This the second notice we have sent you about your past due payment. You have a legal responsibility to repay your debt to the U.S. Government. If you do not make your payment immediately, we will take the action the law requires. You can avoid this action by sending your payment to us now.

Enclosures:
Bill for Past Due Payment
Envelope

☆ U.S. Government Printing Office: 1982—361-100/1047

Form SSA-L4938 (12-81)

Mr. Jacobs [presiding]. Next, Mr. Daley.

STATEMENT OF PERCY O. DALEY, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES LOCAL 1164, FITCHBURG, MASS.

Mr. Daley. I appreciate the opportunity to appear before your subcommittee.

I am a claims representative in the Social Security Administration District Office in Fitchburg, Mass.

My union position is that of president of American Federation of Government Employees Local 1164, which represents the employees of all Social Security field offices in New England. I am also second vice president of the National Council of SSA Field Operations Locals, which represents some 40,000 SSA employees across the Nation.

I have been an employee of the SSA for some 25 years, and it is with that perspective that I speak to you this morning.

We are the people who deal on a day-to-day basis with the elderly and the disabled who apply for benefit checks and medicare. We are also the people who perform the annual redeterminations of SSI eligibility. Thus, we come to develop a feeling for the elderly and the disabled and for some of the problems they face. These feelings have caused us to question some of the SSA's policies, especially in the area of overpayment recovery, or "debt collection," as the Government now calls it.

I am sure you are aware that there are many ways in which recipients of social security benefits or supplemental security income payments become overpaid. Sometimes the blame clearly belongs to the individual. Often, however, the beneficiary's responsibility for the problem is marginal, or the fault may rest with social security's computer system. Sometimes a sequence of events, the fault of no one, may inevitably trigger an overpayment.

Many of the people we serve are from the more vulnerable segments of the population, such as the elderly, the disabled, the very young, and the mentally retarded. Such persons are often less able to comprehend the complexities of the Social Security Act and their responsibilities under it. Many are unable to handle their business affairs without assistance. Many are unable to subsist when their already low income is suddenly removed. Recognizing these facts, the Social Security Administration until recently made a practice of instructing its employees to make sure that overpaid beneficiaries were made aware of their right to apply for a possible waiver of recovery or for a reconsideration of the decision that they were in fact overpaid.

During the past year or so, however, the Social Security Administration has done an about-face. It started with President Reagan, who, on April 23, 1981, issued a directive to all Federal agencies, stating:

> The burden of delinquent debt owed to the Federal Government continues to grow each year and is contributing to our serious problem of inflation. We must again establish the principle that debts to the Federal Government must be paid.

He went on to order "an aggressive program for strengthening executive branch debt collection practices." While few will disagree with this philosophy in the abstract, many of us take exception to the manner of its implementation with respect to individual beneficiaries of the social security and SSI programs.

Last fall, the Commissioner of Social Security informed his employees in a training film that collection of overpayments is equally as important as payment of benefits in the first place. In February, SSA employees were treated to another training film, entitled Debt Collection Techniques, and featuring one T. Frank Hardesty, of Payco Corp., who attempted to fire us up to bigger and better collection efforts. With the proper attitude, he told us, we would soon be calling the collection of overpayments "fun" and would be coming to work exclaiming, "Thank God it's Monday." Needless to say, most employees were alienated by this heavyhanded, fast-talking approach.

Last November, the Acting Associate Commissioner for Field Operations announced the establishment of over 40 "debt collection centers," whose stated primary objective was "to maximize SSA's debt collection dollars in the near term." In plain English, that means, "Grab all the bucks you can as fast as you can." Attempts by the National Council of SSA Field Operations Locals to negotiate with SSA about procedures and impact as required by law were met with stonewalling to the point where a petition for a negotiability determination and an unfair labor practice charge are now pending before the Federal Labor Relations Authority and a request for assistance with the Federal Service Impasses Panel.

One of the concerns about which we have been trying to negotiate is the integrity of the decisionmaking process—that is, a provision that an employee will not be required by some overzealous supervisor to bend the rules and improperly disadvantage an innocent beneficiary, to make the office's dollar recovery statistics look good.

In disregard of the law, SSA has proceeded to implement the debt collection centers and in addition has assigned certain employees in the regular district and branch offices to act as debt collectors as well. Employees have been told not to mention the possibility of waiver of an overpayment except in the fine print of an initial notice. Beneficiaries have been sent letters which contain threats of interest charges and of other, unspecified actions—letters apparently designed to frighten the elderly, the uneducated, and the infirm. One mandated technique is to demand immediate payment in the form of 100 percent withholding of the beneficiary's SSI and social security checks. Although the individual may protest and, if a good negotiator, reach agreement for partial withholdings or installment payments, not every beneficiary has the courage or the skill necessary to achieve such a settlement. As one district manager was quoted in the Wall Street Journal of July 20, 1982, "Some of—these people—are really very docile. They'll give you all the money right away and then starve to death."

In July, the offices in New England received an instruction to the effect that in some cases where an SSI recipient is already having money deducted from his or her check each month in order to repay an old overpayment, we should try to persuade the beneficiary to allow the withholding of a larger monthly amount, so as to complete the recovery process sooner than previously arranged.

In April of this year, an area director in Maryland announced a "contest" designed to reward those employees who collect the most dollars in a given month and to draw management's attention to those employees who fail to collect significant sums. It appeared that the awardees would receive extra points toward promotion, and it could be only a matter of time before the contest losers are disciplined for not performing up to standard. The refusal of the Philadelphia Regional Commissioner to negotiate with the union on the matter has resulted in an unfair labor practice complaint that is now awaiting trial.

Serious as the foregoing developments are, it now appears that the worst is yet to come. The agency is still considering the possibility of turning over the names of so-called delinquent debtors to area credit bureaus in the hope of so besmirching the individual's reputation that he or she will be unable to obtain a loan or make an installment purchase. Worst of all, SSA plans to contract out some of its debt collection workload to private companies, including Mr. Hardesty's—companies which motivate their employees by awarding them a percentage of the take. Can you imagine the effect on an elderly widow of having one of these hired con artists knocking on her door in the middle of the night?

Briefly stated, it appears that in the rush for total dollar receipts, which can hardly be expected to dent the Federal deficit, the social security or SSI beneficiary's right to fair treatment may be pushed aside. As we see it, such an attitude perverts the intent of a program that was established by President Roosevelt and the Congress back in the twenty's and which has been supported by every President and Congress since then.

We appeal to the present Members of Congress to help remedy this situation.

[Attachments to the prepared statement follow:]

DEPARTMENT OF HEALTH & HUMAN SERVICES
Social Security Administration
Baltimore MD 21235

Refer to
SDA2

Received
11/16 81
W.S.

NOV 13 1981

Mr. John Harris, President
AFGE National Council of SSA
Field Operations Locals
1522 Sheldon Street
St. Paul, Minnesota 55103

Dear Mr. Harris:

RE: Description of Model Field Debt Collection Units

INTRODUCTION

As we informed you in my previous letter dated November 3, 1981, the Office of Field Operations is planning to establish a number of model debt collection units in each of the regions. This effort is a part of SSA's activities to strengthen its debt management practices in response to the President's directive of April 23, 1981 and OMB Bulletin No. 81-17, dated April 27, 1981. A description of the models and our plans for establishing them follows.

The model debt collection units will be centralized units separate from claims and postadjudicative operations. The primary objective in establishing the model units is to maximize SSA's debt collection dollars in the near term. The secondary objective is to evaluate the effectiveness of the model units for the purpose of determining the most effective organizational structure for ongoing debt collection operations. As I mentioned in the November 3 letter, it is SSA's intention to implement these units by early December 1981.

DESCRIPTION OF THE MODELS

There are three basic model types, based on the scope of the workload pursued. The three models are mutually exclusive; that is, only one model can be utilized in an individual collection unit. The models are described as follows:

Model I

The collection unit in this model will handle delinquent debts only. All SSA-5095 ROAR transfers and delinquent SSA-633's would be transferred from the DO's/BO's in the unit's service area to the collection unit when it becomes functional. Debts would continue to be transferred to the collection unit on a flow basis as they become delinquent.

NOTE: For purposes of all of our models, SSA-5095 ROAR transfers will always be considered as delinquencies. SSA-633's will be considered as becoming delinquent when no payment has been received within 30 days after the last promised payment.

Model 2

The collection unit in this model will handle all title XVI debt, both delinquent and current, and all title II delinquent debt collection actions (SSA-5095's) referred from the processing centers.

Model 3

In this model, the collection unit will handle all title XVI debt collection actions and all title II delinquent debt collection actions referred from the processing centers, and all overpayment processing actions. It will assume jurisdiction of any overpayment action as soon as the overpayment is discovered; i.e., when the claimant either contacts the DO/BO with an overpayment letter or, in title XVI cases, even before an overpayment letter is sent. Jurisdiction will be continued through both the resolution of the overpayment and collection of all monies due, if appropriate.

The possible service areas for the debt collection units are:

--A district office service area.
--A metropolitan area that encompasses more than one district office service area.
--An Area Director's service area.
--State-wide.

More specific information on the location and service areas of the various models is given on the enclosed chart.

PROCESS DESCRIPTION

The focus of the model debt collection units will be to collect debt. The units' operations will feature tight controls of its "accounts," timely and frequent followups on overdue accounts and the use of innovative methods to locate and contact debtors. The telephone will be the primary means of contact with the debtor. The Model 3 unit will require face-to-face contact to deal with such situations as appeals, waiver interviews, etc. A training package on telephone collection techniques is being developed.

PLANNED LOCATION OF MODELS

Enclosed is a chart listing the planned model units by region, including the geographic location, model type, the space to be occupied and the service area. The information in the chart is based on preliminary planning by the regions and is the latest information available. Regional plans are now being finalized.

STAFFING THE UNITS

Our approach will be to detail personnel into the functions of "Collections Unit Representative", "Collections Unit Clerical" and Collections Unit Supervisor." Personnel functioning as collections unit representatives will be responsible for contacting and dealing with debtors to obtain refunds and signed repayment agreements, and following up to collect delinquent installment payments.

The personnel functioning as collections unit clericals will be responsible for such duties as answering and referring telephone calls, coding and transmitting input documents and entering data on ledgers and control sheets. They also may be asked to perform the general duties of cashier, controller and telecommunications operator.

Virtually, in all cases, an operations supervisor will be detailed to the unit to serve as the collections unit supervisor.

I trust this information will be helpful to you. If there are any questions, please contact Jean Stern, Director, Division of Resource Management, FTS 987-4735 of my staff. If you believe there are any implementation and impact issues, please let me have your specific proposals by November 27, 1981.

Sincerely yours,

Lawrence E. Hendricks

Lawrence E. Hendricks
Acting Associate Commissioner for
Field Operations

Enclosure

MODEL FIELD DEBT COLLECTION UNITS

Region	Locality	Model	Space	Service Area
Boston	Cambridge, MA	1	Cambridge DO	Metropolitan Area
	Providence, RI	2	Providence DO	State of Rhode Island
New York	Buffalo, NY	1	Buffalo TSC	Metropolitan Area
	Manhattan, NY	2	New York (DNTN) DO	Manhattan Borough
Philadelphia	Philadelphia, PA	1	Philadelphia (DNTN) DO	Metropolitan Area
	Wilmington, DE	2	Wilmington DO	State of Delaware
	Baltimore, MD	1*	Baltimore (DNTN) DO	Metropolitan Area
	Pittsburgh, PA**	1	Pittsburgh TSC	Metropolitan Area
	Chester, PA	3	Chester DO	District
Atlanta	Ft. Lauderdale, FL	1	Ft. Lauderdale DO	District and Branches
	Greensboro, NC	1	Greensboro DO	District and Branches
	Raleigh, NC	1	Area Director's Office	District and Branches
	Knoxville, TN	1	Knoxville DO	District and Branches
	Jackson, MS	1	Jackson DO	2 Districts
	Columbia, SC	1	Adjacent to Area Director's Office	State of South Carolina
	Macon, GA	1	Macon DO	District and Branches
	Tampa, FL	1	Tampa TSC	District and Branches
	Jacksonville, FL	1	Jacksonville DO	District and Branches
	Birmingham, AL	2	Birmingham DO	2 Districts and Branches
	Lexington, KY	2	Lexington DO	District and Branches
	Atlanta, GA	3	Atlanta (DNTN) DO	Metropolitan Area
	Memphis, TN	3	Memphis DO	District and Branches

Region	Locality	Model	Space	Service Area
Chicago	Minneapolis, MN	1	Minneapolis DO	State of Minnesota
	Indianapolis, IN	2	Indianapolis Area Director's Office	Southern Indiana Area
	Detroit, MI**	1		
	Cleveland, OH**	2		
	Chicago, IL**	3		
Dallas***	Dallas, TX		Dallas RO	Region-Wide
	Oklahoma City, OK			Area-Wide
Kansas City	St. Louis, MO	2	Old St. Louis Regional Training Center	Metropolitan Area
	Kansas City, KS and MO	2	Kansas City TSC	Metropolitan Area
	Omaha, NE	3	Omaha DO	District
Denver	Denver, CO	1	Denver DO	District and Branches
	Salt Lake City, UT	2	Salt Lake City DO	State of Utah
San Francisco	Berkeley, CA	1	Near Area Director's Office	Bay Area
	San Jose, CA	2	Area Director's Office then San Jose DO	Central California Area
	Los Angeles, CA	3	Los Angeles (DWTN) DO	District
Seattle	Seattle, WA	2	Seattle TSC	Metropolitan Area
	Salem, OR	3	Salem DO	District and Branch
	Boise, ID	1	Boise DO	State of Idaho
	Wenatchee, WA	1	Wenatchee DO	District

* Will initially be a Model 1, then a Model 2.

** Tentative; additional planning is needed.

*** Dallas has pursued its own initiative; their units are already operating and are not at issue.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

Regional Office VI
1200 Main Tower Building
Dallas, Texas 75202

Dear

We hereby demand payment of past due installments within ten days from the date of this letter. The outstanding balance of your account is $______. The amount due immediately is $ ______.

Unless we receive your check or money order, we will prepare your account for referral to the United States Department of Justice with the recommendation that suit be instituted through the Federal courts to recover this debt. A court judgment against you will result in interest and court cost payable in addition to the balance of your account.

This office is required by law to take all necessary action to collect the amount you owe the Federal Government. You may avoid the need for further action by paying immediately. Please make your check or money order (DO NOT SEND CASH) payable to the Social Security Administration and send it in the enclosed self-addressed envelope to:

Regional Overpayment Collection Center
P. O. Box 50668
Dallas, Texas 75250

Your social security number ____________________ must be printed on the check or money order. If you have a valid reason for not making your payment at this time, you must contact this office within ten (10) days.

All assistance possible will be extended to you in settling your obligation to the United States Government and clearing your credit record as quickly as possible. However, your prompt cooperation is necessary. If you have any questions, you may call, toll free 1-800-772-0108.

Collections Representative
Regional Collection Center

Exhibit 1

Social Security
Notice to Visit Office

From: Department of Health, Education, and Welfare
Social Security Administration

SOCIAL SECURITY OFFICE 133
235 MAIN ST
POUGHKEEPSIE, NY 12601

TELEPHONE: 452-3583

Date:

Claim Number:

Hours:

We would like to talk with you about your Social Security overpayment of $. If you do not come into or telephone this office by the date shown belowthe legal action required by law will be taken.

Please come to our office as soon as you can and *bring this letter with you.* Our office hours and telephone number are shown above.

If you can't come before , let us know as soon as possible and we'll make other arrangements with you.

Sincerely yours,

☆U.S. Government Printing Office: 1977—241-468/5-4

SSA-L5006 (3-76)

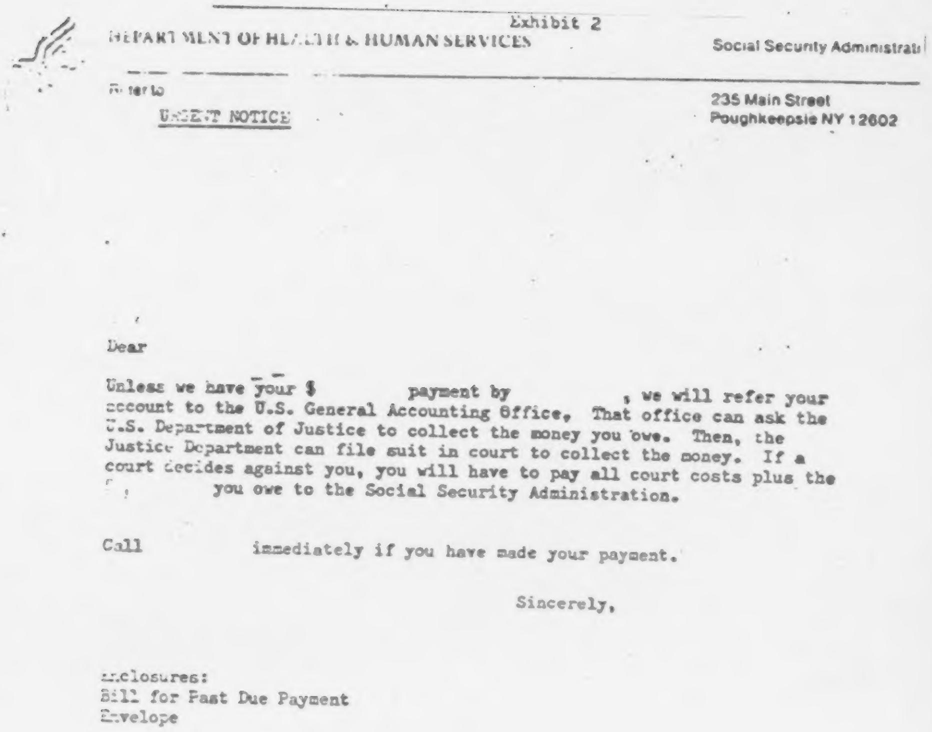


Exhibit 2

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administrati

Refer to

235 Main Street
Poughkeepsie NY 12602

URGENT NOTICE

Dear

Unless we have your $ payment by , we will refer your account to the U.S. General Accounting Office. That office can ask the U.S. Department of Justice to collect the money you owe. Then, the Justice Department can file suit in court to collect the money. If a court decides against you, you will have to pay all court costs plus the you owe to the Social Security Administration.

Call immediately if you have made your payment.

Sincerely,

Enclosures:
Bill for Past Due Payment
Envelope

PAST DUE PAYMENT

This the second notice we have sent you about your past due payment. You have a legal responsibility to repay your debt to the U.S. Government. If you do not make your payment immediately, we will take the action the law requires. You can avoid this action by sending your payment to us now.

Enclosures:
Bill for Past Due Payment
Envelope

☆ U.S. Government Printing Office: 1982—361-150/1067

Form SSA-L4938 (12-81)

DEPARTMENT OF HEALTH & HUMAN SERVICES
Social Security Administration

Area 1 Debt Collection Center
PO Box C-81426
Georgetown Station
Seattle, Wa. 98108

Dear

The Social Security_Administration has not received your installment payment of __________ a month since ____________. Your account now has been turned over to the collections branch of the Social Security Administration. This office works with the regional attorney's office to see that all debts are collected.

A payment of ________ which represents all money currently overdue should be mailed to this office immediately. Make your check or money order payable to the Social Security Administration and mail to:

Social Security Administration
PO Box C-81426
Georgetown Station
Seattle, Wa. 98108

Non-payment of this debt could make it necessary to suspend future benefits which may be due you.

Up until now no interest has been charged. Special legislation is being prepared that will require both interest and penalties to be added to the debt. It would be in your best interest to settle this matter now while the amount is still manageable.

If you have any questions concerning your payments please call,

Collections Representative
Area 1 Collection Center

DCC-3

MEMORANDUM

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION

TO : All District and Branch Managers
and Resident Representative
No. 11 (11-82)

DATE: February 24, 1982

REFER TO:

FROM : Area Director
Owings Mills, Maryland

SUBJECT: Monthly Collections Report/Debt Collector of the Month Award

The attached report will be due in my office the third workday of each month for collection activity for the previous month. The first report for the month of March will be due April 5, 1982. The report is a breakout of all collection activity for the month by employee. The "breakout" should be by employee rather than by Title For example, a T16 Claims Representative could easily accept an overpayment refund for a T2 overpayment. The amount should simply be credited to the employee's name.

When adding amounts the following guidelines should be considered:

1. Any refund in the form of cash, check, or money order is counted.
2. In the case of offsetts, the total amount of the overpayment that has a written offsett agreement would be counted for the one month.

E.G. A T2 CR collects the following during a month:
1. cash of $20 on a $200 T2 overpayment
2. money order of $35 on a $1500 T16 overpayment
3. an offsett agreement to withhold $50 a month from a T2 check to refund a $2000 T16 overpayment

Collections for that T2 CR for the month would be $2,055.00

Each month four awards will be received by the employees. One employee in each of the following categories who have the highest collection amounts for the month.

1. T2 Claims Representative
2. T16 Claims Representative
3. Service Representative
4. DCC Contact Representative

And of course if there happens to be that outstanding CDC, etc. who also collects, by all means he/she will not be overlooked.

Thomas R. Shortley

Attachments

RANDUM

DEPARTMENT OF HEALTH, EDUCATION, AND WELFAR
SOCIAL SECURITY ADMINISTRATION

Thomas R. Shortley
Area Director
Owings Mills, Maryland

DATE:

REFER TO:

ROM :

UBJECT: Collections For The Month Of ______________________________

DUE THE 3RD WORKDAY OF EACH MONTH FOR PREVIOUS MONTH'S COLLECTIONS

NAME OF EMPLOYEE	POSITION (e.g. T16CR,T2CR,SR)	AMOUNT

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

Refer to: SD34-b1

Region III
PO Box 8788
3535 Market Street
Philadelphia PA 19101

April 16, 1982

Mrs. Rita E. Pyle
President, AFGE 3302
8629 Oakleigh Road
Baltimore, MD 21234

Dear Mrs. Pyle:

Reference your mailgram dated April 6 and 7, 1982 which expressed your wish to negotiate on the impact and implementation of the DCC Awards.

Per my conversation with Mr. Shortley, he has advised me that he will not implement the proposed Awards.

With respect to your telephone conversation with Mr. Shortley, I have been advised by him that the telephone conversation with you ended with his saying good-bye and the conversation being terminated.

Sincerely yours,

Walter L. King

Walter L. King
Liaison Officer, Field

DEBT COLLECTOR OF THE MONTH

AWARD

presented to: [redacted]

APRIL

month

area director

DEPARTMENT OF HEALTH & HUMAN SERVICES

Refer to

Memorandum

CL-10

Date June 18, 1982

From Area Director
Owings Mills, Maryland

Subject May Overpayment Collections--INFORMATION

To All District and Branch Managers
and Resident Representative
No. 35 (35-82)

The May Overpayment Collections were notable. The total figures are now in and $381,760.87 was refunded through cash or offset.

The order of finish was as follows:

1 Debt Collection Center
2 Catonsville
3 Frederick
4 Towson
5 Cambridge
6 Cumberland
7 Salisbury
8 Baltimore (East)
9 Hagerstown
10 Baltimore (West)
11 Baltimore (Northeast)
12 Glen Burnie
13 Bel Air
14 Annapolis
15 Westminster
16 Randallstown
17 Eastpoint
18 Elkton
19 Petersburg
20 Baltimore (Northwest)
21 Onancock
22 Mondawmin
23 Baltimore (North)
24 Baltimore (DTN)

The "Top" Individual Collectors were:

Title II	Title XVI	SR
S. White	L. Gilbert	J. Weiss
C. Barton	L. Hyre	R. Sowers
W. Ross	D. Dorsey	H. Schools
	L. Washington	P. Bryant
		B. Howard

CDC	DCR
M. Stokely –	L. Mosley
	V. Livingston

The winners of the Area Director Debt Collectors Award of the Month goes to:

S. White	T-2 CR, Cumberland
L. Gilbert	T-16 CR, Catonsville
J. Weiss	SR, Northeast
M. Stokely	CDC, Cambridge
L. Mosley	CR, DCC Unit

Please extend to all your employees my thanks for a job well done, and keep up the good work.

Thomas R. Shortley

TRANSMITTAL NO. 5-31

DISTRIBUTION: All CRs and DRTs
BOSTON REGION

DATE: 6/23/82

ORIGINATING OFFICE: AP3

PROGRAMS OPERATIONS MANUAL SYSTEM
Part 05 - Supplemental Security Income
Chapter 023 - Posteligibility Events
Subchapter 05 - Redeterminations of Eligibility and/or Payment Amount

New Material	No. of Pages
SI R02305.065D	2

EXPLANATION OF POMS REGIONAL SUPPLEMENT

Section R02305.065E provides instructions for reviewing check adjustment rates on SSI overpayments for potential changes at the time of redetermination.

ACTION NOTES

SI R02305.065C Section	"Redeterminations Based on DPEQ Review" Delete entire page
SI R02205.999 Exhibit VI	Fourth sentence should read "If we accept your offer, then we would consider the debt paid in full."

Social Security Administration
OFFICE OF THE REGIONAL COMMISSIONER
Boston Region

Effective Date:
Upon Receipt

FITCHBURG, MASS.
JUN 30 [illegible]
[illegible]
SSA DISTRICT OFFICE

D. Redeterminations Based on DPEQ Review

Per CM13401C, if a DPEQ review has been completed but it was referred to the district/branch office for effectuation of a change, the SSA-8530 may be counted as a redetermination. In this circumstance, the DO should input the RZ "F" (regardless of whether an SSA-8200 was completed.)

E. Special Processing Instructions for Cases with Existing Check Adjustments

Some check adjustment rates established prior to SSA's increased emphasis on debt collection reflect unnecessarily or unreasonably lengthy repayment schedules. In order to collect debts owed SSA as quickly as possible, all cases currently in adjustment status should be reviewed and processed as follows:

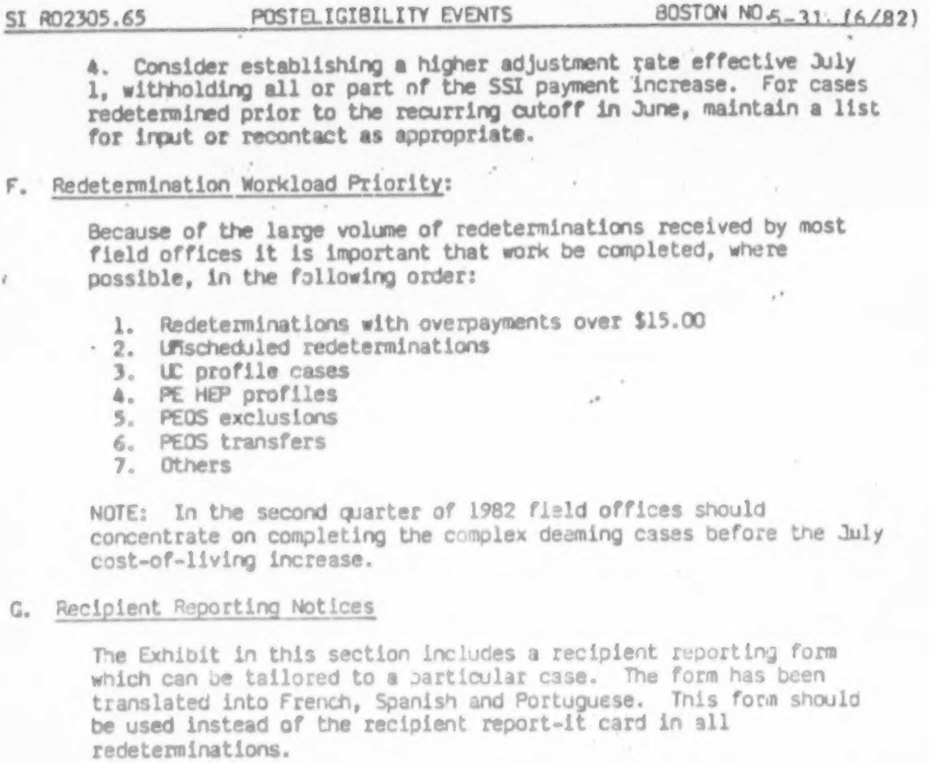
1. Request full refund in person or by telephone. Discuss the existence of bank accounts or other resources from which refund can be made. If full refund is not possible, obtain the largest possible partial refund.

2. If full refund was not obtained, establish the largest reasonable adjustment rate. As in other collection activities, you will not always get what you ask for, but you should never hesitate to ask.

If the debtor does not agree to a rate which will complete recovery within six months, discuss their necessary monthly expenses to arrive at your determination of the largest reasonable rate. Only in rare documented circumstances should the rate be under $10 or require over 36 months from the date withholding first began.

We have a dual responsibility here: to promptly collect debts owed the US Government and to equitably administer the SSI program. In every case, you must carefully weigh these responsibilities and arrive at the best possible determination. Although you will discuss the issue with the debtor, the rate of adjustment is strictly an SSA determination and not subject to appeal.

3. If the debtor's SSI check is less than the rate you establish, negotiate withholding from RSDI or an installment agreement to make up the difference.



4. Consider establishing a higher adjustment rate effective July 1, withholding all or part of the SSI payment increase. For cases redetermined prior to the recurring cutoff in June, maintain a list for input or recontact as appropriate.

F. Redetermination Workload Priority:

Because of the large volume of redeterminations received by most field offices it is important that work be completed, where possible, in the following order:

1. Redeterminations with overpayments over $15.00
2. Unscheduled redeterminations
3. UC profile cases
4. PE HEP profiles
5. PEOS exclusions
6. PEOS transfers
7. Others

NOTE: In the second quarter of 1982 field offices should concentrate on completing the complex deeming cases before the July cost-of-living increase.

G. Recipient Reporting Notices

The Exhibit in this section includes a recipient reporting form which can be tailored to a particular case. The form has been translated into French, Spanish and Portuguese. This form should be used instead of the recipient report-it card in all redeterminations.

Mr. KEARNEY. Mr. Chairman, I would like to comment on what Mr. Harris and Mr. Daley have said.

We have been trying to get management to do what it is supposed to do, and that is deal with the union and the employees to take advantage of the experience that they have gained and earned, and they continually refuse to do so, and they turn to outside consultants for advice on how to collect the money on overpayments.

All we are asking as a union, call on us to do the things that we know best. That is how to run the social security system, not turn to outside consultants or outside collection companies.

This is a matter of concern not only to the employees, but certainly to every recipient, social security recipient, in the country, and I am delighted to be here today and tell you about it and have these experienced field people tell you now it really works.

Mr. JACOBS. On that point, you bring to mind the supposed wisdom of Japanese industry. Rather than asking an expert who is quite frequently someone from out of town, they ask people who work on the line. It seems to work for them.

How many social security old-age and survivor beneficiaries depend entirely on the social security for their livelihood? What percent, I mean.

Mr. HARRIS. Off the top of may head, my recollection is approximately 25 to 30 percent.

Mr. JACOBS. Twenty-five to thirty percent?

What percent are so close to that line that they could not exceed the earnings test or the retirement test?

Mr. **Harris**. I believe it is the vast majority of that, sir.

Mr. **Jacobs**. There are moves to take the retirement test off altogether. If they did that, there would be very few people eligible for old-age and survivors benefits who could go out and actually command that kind of income from the market.

I am a little bit confused. Aren't most of the collections for overpayments made from current benefits? Isn't that the majority?

Mr. **Harris**. The majority.

Mr. **Jacobs**. What is the outside collection agency for?

Mr. **Harris**. I have wondered that, too.

Frankly, the whole focus, the whole thrust of what the Commissioner did was to move us away from looking at overpayment as something that may not be these people's faults to bring one in which we expressly state by policy that they are presumed to be at fault; that is is their debt that they must repay and the emphasis is on immediate cash recovery.

Mr. **Jacobs**. Something beyond the current check, you mean?

Mr. **Harris**. In RSI, about half of those overpaid, my understanding is about half of those overpaid, you know, may go off of benefits and have to repay by cash instead of an adjustment of benefits; they have to pay by cash, and it appears that most of those actually do pay by cash and pay timely.

Mr. **Jacobs**. From someone who is living month-to-month on the social security check, you have probably done a day's work to get a percentage of that check, to retire the overpayment.

That is about the best anyone can do?

Mr. **Harris**. I am not sure I understand your question.

Mr. **Jacobs**. The Social Security Administration has the authority to withhold from future payments to satisfy an overpayment.

Mr. **Harris**. Yes.

Mr. **Jacobs**. If most of the people on social security don't have any other income, outside income, or any to speak of, and if they are living day-to-day on what they take in, how does an outside collection agency do very much good? I don't understand. How can it collect any more than a deduction from the check which you can do in the first place?

Mr. **Kearney**. They plan to scare the hell out of them.

Mr. **Jacobs**. They can cough up blood from a turnip.

Mr. **Kearney**. In the Providence office, they say some of them are so docile that they will give up their whole check, and then go starve, and that is the truth.

Mr. **Harris**. Are you aware that Social Security reversed a former policy that prohibited the taking of a person's entire benefit check, and what the Commissioner has done in the last 18 months, from a policy whereby we never took more than 25 percent of a person's check, we now take their full check?

Mr. **Jacobs**. Well, that is very interesting. I am glad that came out in the testimony because, (a) in most State garnishment situations, the law prohibits taking the full check of the garnishee; (b) until 1975, the IRS had the authority to levy 100 percent of a delinquent taxpayer's current paycheck to satisfy delinquent taxes.

I happen to be the author of the law that prohibited that, that gave a living exemption, so if they have gone to 100 percent, frankly, it is news to me, and the most startling news that I know of that has come out of these hearings.

Is that widespread? Do they do that with some millionaire?

Mr. HARRIS. No; that was the established policy that was changed in January 1982.

The initial notice of overpayment was revised, and its says you were overpaid $200, whatever. You must repay that amount immediately in cash, or within 30 days we will withhold your entire benefit check. That is what the notice says.

Not only do they do that——

Mr. JACOBS. There may be something to be said for cashing it as soon as possible.

Mr. HARRIS. There is nothing in there that tells people they have a right to pay back on some installment plan, nor that they have a right to appeal.

Mr. JACOBS. This testimony has been very useful, and the committee is grateful to you gentlemen.

Mr. HARRIS. One last remark, Mr. Jacobs. I have heard the Commissioner and others say that much of the abuses of this system are the result of overzealous workers.

I resent that. The only person who is pursuing these policies with any zeal is he, himself, and his deputies, and if there is anybody responsible for the abuses, it is he, himself. He made a statement regarding a letter from Arlington, Va., that was simply untrue. He said that letter came out of that field office. That letter, in fact, sir, was written and devised by the Regional Commissioner of the Philadelphia Region and sent out to all of the offices in that region.

Moreover, that letter in that model form and other forms like it was developed by the Commissioner's own debt-management project, and it has been spread all over the country and has been used all over the country, and I know for a fact that that particular letter was used in the training that was given to the workers in February and January of this last year.

I would be glad to provide your staff with the training package that was used. They have some of the material, and I will be providing more.

Mr. JACOBS. I wouldn't lay too much on the Commissioner. He works for somebody else, too. Don't forget.

Mr. HARRIS. I had the impression he worked for us, sir.

Mr. JACOBS. We thank you for your testimony.

[The following was subsequently received:]

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES,
Canton, Mass., October 6, 1982.

Hon. J. J. PICKLE,
Chairman, Subcommittee on Social Security,
Washington, D.C.

(Attention: Mr. John J. Salmon, Chief Counsel, Committee on Ways and Means).

DEAR MR. SALMON: Thursday, September 23, 1982 was a memorable day for Social Security Counsel President John Harris, Vice President Percy O. Daley and myself as we attempted to tell the committee like it is under the Administration's heavy hand on so-called debt collections. I will let my testimony stand with this observation.

We listened intently to Management testimony and tried earnestly to understand what they were trying to portray. Mr. Harris, Mr. Daley and I hoped that Management in turn would listen to the testimony of representatives of the Social Security employees. Instead, at the end of Mr. Svahn's testimony, about 40 of Social Security Management stood up and left abruptly. Their actions should be an indication to the committee of how difficult it has been for the Union to establish a dialogue with SSA Managers. It is typical of Government Managers today to ignore the men and women who work for them. As you know, the Manager does not always have the answers and it is up to good Management to encourage the exchange of ideas from their employees.

It is my further hope that the committee will suggest that Management bring the whole team on the field so that we may face the problems of the 80's together.

Respectfully,

DANIEL J. KEARNEY,
National Vice President.

Mr. JACOBS. Our next witness is from the Civil Liberties Union, Mr. John Shattuck, director of the Washington office.

Your full statement will be included in the record.

STATEMENT OF JOHN SHATTUCK, NATIONAL LEGISLATIVE DIRECTOR, AMERICAN CIVIL LIBERTIES UNION

Mr. SHATTUCK. I am delighted to be here to address a somewhat different problem in this social security field.

I have been asked by the subcommittee to appear on the question of the social security number as a universal identifier. I have submitted lengthy testimony on that subject, and I should say that it has been the subject of considerable study of mine and others who have been active in the field of privacy for a number of years.

I am the author of a book, "Rights of Privacy," published in 1977.

The issue of social security numbers as identifiers goes back before that.

Mr. JACOBS. Who is your publisher?

Mr. SHATTUCK. The National Textbook Co.

I don't think it is out of print yet, but probably out of date.

How does the growing use of the social security number as a universal identifier threaten the right of privacy?

First, in the case of an identity document, by creating a domestic passport implementing the Government's already broad police power to stop, question, and search. Second, by creating what amounts to a national population registry, a Government databank through which every individual's personal identity is established and validated. Third, through the certainty that this data bank will begin to be used to further a variety of public programs and policies, and thereby become both an enormous repository of personal information and a means of tracking and controlling the lives of American citizens. And fourth, through the use of the social security number, by establishing a universal identifier that facilitates the matching and exchange of data among many different governmental and private record systems.

Let me quote very briefly from a key passage in the Senate report on the Privacy Act of 1974, which is the main piece of legislation protecting the rights of privacy.

Chairman PICKLE. Are you reading from your testimony now?

Mr. SHATTUCK. Right now I am going to quote from something that is not in my testimony, and I will cover a few parts of my testimony very briefly, Mr. Chairman.

The passage that I want to quote from is the Privacy Act; the legislative history reads as follows, and says it much better than I could say it:

> If one reads Orwell and Huxley carefully, one realizes that 1984 is a state of mind. In the past, dictatorships have always come with hobnailed boots and tanks and machine guns, but a dictatorship of dossiers and data banks can be just as repressive, chilling and debilitating on our constitutional protections. It is this fear that presents the greatest challenge to Congress right now.

That is the legislative history of the Privacy Act of 1974.

It may be too late to argue that the social security number should not be used as the standard universal identifier. At least as far as governmental recordkeeping is concerned, the social security number is already a universal identifier. There is scarcely a State or Federal personal data system that does not use the social security number, from tax and welfare agencies to schools, libraries, and licensing authorities. In addition, records of many private transactions, particularly those involving bank accounts and securities that have tax implications, are required by law to use the social security number.

In 1973, an HEW advisory committee established by then Secretary Elliot Richardson warned that the social security number, though not a standard universal identifier in the strictest technical sense, could become so for all practical purposes simply by being used as one.

The HEW committee examined the reasons that made people fear the standard universal identifier, despite its practical advantages for record management. It predicted that "the bureaucratic apparatus needed to assign and administer an SUI [standard universal identifier] would represent another imposition of government control on an already heavily burdened citizenry." It would lead to a system of mandatory personal identity cards: "Loss or theft of an SUI card would cause serious inconvenience, and the mere threat of official confiscation would be a powerful weapon of intimidation."

It would create a national dossier system that, "would make it much easier for an individual to be traced, and his behavior monitored and controlled, through the records maintained about him by a wide range of different institutions * * *. A permanent SUI issued at birth could create an incentive for institutions to pool or link their records, thereby making it possible to bring a lifetime of information to bear on any decision about a given individual."

For a time, the committee's cautions were heeded. In the Privacy Act of 1974, Congress forbade new uses of the social security number in Government programs unless Congress, itself, authorized them. But very soon thereafter, Congress reopened the doors by authorizing the States to use the social security number for the administration of tax, welfare, driver's license, and motor vehicle registration laws, and for the parent locator service.

While there have been few challenges to new governmental uses of the social security number since then, Congress has generally allowed new uses that appear to enhance the accuracy and efficiency of data systems management.

What is the significance of this drift toward a universal identifier?

What it means is that we are moving quickly toward two serious dangers that were foreseen by the HEW committee: increased record-matching among private agencies and between public and private agencies, and ultimately the creation of a mandatory identification card.

In the case of private agencies, banks and brokerage houses are required by law to obtain their customers' social security numbers. Employers, of course, must do so to report earnings to the social security system. Other private agencies and businesses are free under the law to use the social security number if they wish to. Many do.

Among them are hospitals, insurance companies, credit reporting agencies, utilities, credit card companies, check-cashing services, colleges, department stores, airlines, hotels, unions, charities, and even undertakers.

The growing use of the social security number among private agencies coincides with a growing exchange of information and matching of records between public and private agencies, for instance, the example noted earlier of matches between private employer payrolls and the welfare rolls.

A population registry will seek information from employers and other private agencies and in return will give them information.

Such exchanges can only encourage universal use of the social security number as an identifier, which, in turn, will encourage further pooling of records. Eventually, the distinctions between public and private agency record systems—faint as they are even now in some cases—may disappear altogether.

The proliferation of uses of the social security number over the last 15 or 20 years by both public and private data systems has facilitated the widespread exchange and pooling of personal data. But there are still many practical impediments to the creation of a standard universal identifier and a cradle-to-grave national dossier system. The establishment of a population registry to verify personal identification and employment eligibility, and of its concomitant, the "secure" identity document will do much to remove those impediments at incalculable cost to the privacy and civil liberties of our citizens.

The very existence of a growing bank of data information indexed under a growing identifier creates the demand for identity documents.

This is not a new issue. I am here simply to review, and my testimony at much greater length covers the dangers of proceeding to a universal identification system by using the social security card.

Those dangers have been considered again and again by the Congress, by relevant committees, by commissions outside of the Congress, and yet despite what the 1973 HEW Commission said, and what the Congress itself said in its legislative history to the Privacy Act, we are moving further and further along the way toward centralizing a great deal of personal data about American citizens and allowing that data to be accessed by the use of a social security number as a universal identifier.

The privacy implications of that are serious. The factors in terms of the value of that kind of a system for managing existing data arrangements are also very attractive, but I don't think we should be deluded into thinking that it is perfectly all right to drift into this kind of national data bank system without realizing what we are going to lose in the process, and it is time for the Congress to address privacy issues as it did in the early seventies, and even as recently as 3 or 4 years ago.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF JOHN SHATTUCK, NATIONAL LEGISLATIVE DIRECTOR, AMERICAN CIVIL LIBERTIES UNION

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you to offer the comments of the American Civil Liberties Union on the Social Security Number as a "universal identifier." I am the Executive Director of the ACLU's Washington Office and director of its national legislative program. For five years I headed the ACLU's Privacy Project, and I am the author of a textbook, Rights of Privacy (National Textbook Co. 1977).

The ACLU is a nationwide, non-partisan organization of 250,000 members whose sole purpose is protection of individual rights and freedoms under our Constitution. For many years the ACLU has been in the forefront of efforts to safeguard the privacy of Americans against intrusion by both government and private actions. In recent years we have taken a special interest in the issue of privacy as it relates to the maintenance and dissemination of personal information, with particular focus on the centralization of personal data by the federal government and the development of the Social Security Number as a "universal identifier."

Introduction

Every new use of the Social Security Number is aimed at the creation of a reliable mechanism for person identification.

One approach is the development of a counterfeit-resistant identity document, such as an improved version of the Social Security card. Presumably, such a document would contain the bearer's photograph, signature, perhaps other identifying data, and a code indicating the bearer's citizen or alien status -- all verified by information in government databanks. It would have to be physically tamper-proof -- for example, manufactured of materials that would shatter if an attempt were made to substitute another photograph or alter any of the data.

A different approach would dispense with the need for an identity document, such as a tamper-proof social security card, relying instead on a government databank of personal information filed under individual social security numbers. Users would submit forms on each person of interest, to be screened by government officials against records in the databank.

How does the growing use of the Social Security Number as a universal identifier threaten the right of privacy? First, in the case of an identity document, by creating a domestic passport implementing the government's already broad police power to stop, question, and search. Second, by creating what amounts to a national population registry, a government databank through which every individual's personal identity is established and validated. Third, through the certainty that this databank will begin to be used to further a variety of public programs and policies, and thereby become both an enormous repository of personal information and a means of tracking and controlling the lives of American citizens. And fourth, through the use of the Social Security number, by establishing a universal identifier that facilitates the matching and exchange of data among many different governmental and private record systems.

These are not merely projections of remote possibilities. Existing laws and record-keeping practices have already brought us perilously close to each of these eventualities.

The Social Security Card as an Internal Passport

The greatest danger of the growing number of mandated uses of the Social Security card as an identity document is that it tends to become a form of domestic internal passport. Certainly no one intends this result, and proponents of the identity card believe that they can take steps to prevent it. What they may not fully realize, however, is that the government's police powers to stop and search are already sufficient to transform the identity document into a major threat to privacy, freedom of movement and equal protection of the laws.

A look at some Supreme Court decisions over the last decade will illustrate the point. In two 1973 decisions, the Court ruled that an officer arresting a motorist for driving without a license or with a revoked license may search both the motorist and the vehicle. *U.S.* v. *Robinson*, 414 U.S. 218; *Gustafson* v. *Florida*, 414 U.S. 260. In both cases the search was precipitated by the motorist's failure to carry a valid document. Although six years later the Court struck down random spot checks of drivers' licenses and registrations, *Delaware* v. *Prouse*, 440 U.S. 648 (1979), it distinguished such searches from those conducted at U.S. borders or at specific checkpoints within the country. The Court has sustained document inspections at border checkpoints and their "functional equivalents," *Almeidia-Sanchez*

v. U.S., 413 U.S. 266 (1973), U.S. v. Martinez-Fuerte, 428 U.S. 543 (1976), and stops by roving patrols for "reasonable suspicion" based on the physical appearance of the occupants of a car, U.S. v. Brignoni-Ponce, 422 U.S. 873 (1975).

In U.S. v. Mendenhall, 48 U.S.L.W. 4575 (May 27, 1980), the Court upheld the constitutionality of a stop and request for identification by drug agents at an airport, on the grounds that the woman had not been "seized" because she could have walked away at any time. The Court distinguished this situation from its invalidation of a stop in an earlier case, Brown v. Texas, 443 U.S. 47 (1979), in which police had stopped a man in a high drug problem area, requested identification, and were refused -- a crime under Texas Law. The distinction drawn by the Court was that in Brown the individual had been "seized," in that he was detained, however briefly, and was not free to walk away.

In these cases and others in the lower courts, the police power has been defined as allowing government agents to stop individuals without any particular suspicion of a crime, to request identification, and to search, detain, or arrest people who cannot produce proper documents. Just how far this can be carried is dramatized by the recent case of a New Jersey woman who was stopped for a traffic violation, arrested for driving without her registration and insurance documents, and strip-searched in a cell at the police station.[1]

The Supreme Court decisions just described are directly pertinent to proposals for turning the Social Security card into a national identity document. Since police powers to stop and question people to check identification are already very broad, a national identity document would serve as a blanket invitation for the police to exercise these powers frequently and to their fullest extent, at the expense of individual privacy.

Creating a Population Registry

With or without an identity card, a national databank of personal information will result from the growing use of Social Security numbers for identification purposes.

If such a databank is truly to serve as a reliable means of checking identification, it must contain current, verified personal information on each data subject. In addition to the Social Security number and other items commonly used to establish identity (date and place of birth, sex, former names, parents' names, etc.), this information would probably include a physical description such as height, coloring, and race, perhaps some unique identifier such as a signature or photograph or even fingerprints, and a notation of status as a citizen or alien with permission to work.

The need for a national population registry as the foundation for a "secure" identity document is commonly acknowledged. The HEW Advisory Committee on Automated Personal Data Systems ventured that prediction in 1973.[2] So did the Privacy Protection Study Commission in 1977,[3] and the U.S. commission on Civil Rights three years later.[4] Reports by the Federal Advisory Committee on False Identification and the Domestic Council

Committee on Illegal Aliens in 1976, and by the General Accounting Office in 1980, all emphasized the great difficulty, if not impossibility, of creating a foolproof identification system without a separately maintained database for verification of documents.[5] Most recently, the staff of the Select Commission on Immigration and Refugee Policy pointed out that all of the identification systems proposed to implement sanctions against employers who hire illegal aliens would create a new governmental database,[6] which would be in effect a national registry.

The HEW Advisory Committee on Automated Personal Data Systems cautioned nearly a decade ago that a population registry would develop into a national dossier system.[7] Subsequent events proved the Committee's judgment correct, but by a roundabout means. While we do not have anything that looks quite like the National Data Center that was being proposed by computer enthusiasts in the mid-1960's, the history of automated data systems since that time shows clearly

(1) that large personal data systems are nearly always adapted to purposes other than their originally intended uses, and

(2) that techniques for the electronic matching and pooling of data in separate systems have created many of the characteristics, if not the physical actuality, of a national dossier system.

One might list, almost at random, dozens of examples of new uses for once-restricted data systems:

- As mentioned earlier, Social Security Administration files are used to identify "illegal aliens."

- The Parent Locator Service, established pursuant to Title IV-D of the Social Security Act, allows child support enforcement officials to search "confidential" governmental and private record systems in order to trace absent parents who owe child support.

- Numerous state laws allow or actually require public and private employers to query criminal history databanks, compiled originally for police use, in order to screen out applicants convicted of certain crimes, or simply to ascertain if applicants have arrest records.

- Internal Revenue Service records are checked to screen prospective jurors and to locate non-registrants for a military draft.

- The Veterans Administration and the Department of Health, Education and Welfare have matched their records against federal payrolls to find VA and student and loan defaulters.

- The records of hundreds of federal and state public assistance programs have been matched against each other and against public and private employment rolls, to identify people receiving multiple benefits or benefits for which they are ineligible because of their earnings. Some states, such as New York and California, have even set up special wage reporting systems to make data on earnings more easily available for inter-agency matches.

- In many states, detailed case records from publicly funded services such as mental health clinics, family planning programs, and services for handicapped children have been pooled in comprehensive "human services" or "family services" databanks, where they are used for a variety of purposes from Fraud control to eligibility determinations to case management review.

- Banks are required by law to preserve their customers' records much longer than they are needed solely in order to assure their availability for government investigations.

- Apparently, we will soon see the implementation of current proposals for giving data from government records to credit reporting agencies in order to help the government recoup bad debts, for compiling Selective Service lists from Social Security and Internal Revenue Service records, and for pooling information on all federal assistance recipients into a single national benefits recipients databank.

Such examples as these do not constitute a "parade of horribles": it is not necessary to cite abuses like the violation of Census Bureau confidentiality during World War II to help the War Department find Japanese-Americans, or the political manipulations of tax and other government records that were exposed during Watergate. Many of these expanded uses are for purposes that most people would find at least rational, perhaps commendable. They demonstrate that personal data systems are useful for a wide variety of purposes beyond their originally intended parameters, and that such systems will, inevitably, be adapted to new purposes in accordance with developments and changes in public policy.

There is no reason to believe that a population registry would not follow the same course. For example, a databank already used to determine eligibility for employment on grounds of citizenship or alien status could easily be adapted to implement existing laws restricting the employment of convicted felons for certain kinds of jobs; such convictions could simply be coded into the system's database. The databank could also be useful in efforts to combat welfare fraud. If the database were expanded to include a notation of status as a welfare recipient, then the databank could automatically report the hiring of such persons to the appropriate welfare agency as a signal for cutting off benefits, and matches of the databank against various public assistance program rolls would simplify the identification of ineligible welfare recipients. If the registry contained identifiers such as photographs or fingerprints, it could be useful in apprehending criminal fugitives. It could also be an invaluable asset to the Parent Locator Service.

In time, the registry itself might be expanded to include new data subjects, such as children. There has been recurrent controversy over the enrollment of the children of "illegal aliens" in public schools; and a Texas statute barring free public education for such children has recently been struck down as unconstitutional by the Supreme Court.[8] A population registry could verify the identity of the children of citizens and resident aliens, allowing the public schools to check the eligibility of students when they enroll. The registry could also help prevent welfare fraud schemes for collecting benefits for fictitious children. It is not unreasonable to forecast a population registry in which children would be enrolled at birth.

Through these and similar adaptations, a national population registry would unquestionably become, as the HEW Advisory Committee predicted, a national dossier system. Whether the registry itself contained complete personal dossiers, or created such dossiers through matches with other systems, the effect would resemble the picture described by the head of a Congressional Committee which, fifteen years ago, examined the prospect of "The Computerized Man":

> ...[A person's] life, his talent and his earning capacity would be reduced to a tape with very few alternatives available....

> Nor do we wish to see a composite picture of an individual recorded in a single informational warehouse, where the touch of a button would assemble all the government information about the person since his birth....
>
> The presence of these records in government files is frightening enough, but the thought of them neatly bundled together into one compact package is appalling....
>
> We are told that the computer can be programmed to program out derogatory and confidential information; what we fear is the ability to program it in.

Time and a greater familiarity with computerized data systems have not made the public any more sanguine about the effects of massive governmental databanks upon their individual rights and freedom. A Harris Poll published in 1979 showed that one of every three Americans believed that our society already resembled the "1984 Syndrome."[9] As a nation, we still fear what the HEW Advisory Committee described as the cradle-to-grave dossier, which would allow the government to trace, monitor, and control each individual. "American culture is rich," said the Committee, "in the belief that an individual can pull up stakes and make a fresh start, but a universally identified man might become a prisoner of his recorded past."[10]

Discussions of a population registry often focus on the potential for dramatic abuses: manipulations by corrupt or authoritarian officials to punish their political enemies or to oppress society's weakest and most disadvantaged members. We do not think it necessary to go this far to demonstrate the dangers of such a system. Rather, we think that more attention should be given to the tremendous attraction that a databank of reliable personal identification would hold for the implementation of public policy in many areas, and to the inevitability that such a databank, initially intended to do no more than verify the personal identity and eligibility of workers, would become a full-blown dossier system.

Still, the likelihood of more blatant abuses cannot be ignored, unless we simply shut our eyes to recent history. For example, employers often want to know if their applicants have histories of mental illness, heavy debt, drug or alcohol abuse, epilepsy, heart disease, cancer, or other characteristics that might in some way indicate a "bad risk": why not code databank files with a complete description of each person's disabilities? We have a precedent, in the secret coding of military discharge papers in such a way that employers could identify ex-servicemen branded by the government as "crazies," "troublemakers," or "perverts." With the growing backlash against homosexuals, it is not far-fetched to speculate that files might be coded to show sexual preference, on the rationale that homosexuals ought not be hired as school teachers or camp counselors.

Political dissenters might be prime targets for special attention. One need not look so far back as the McCarthy blacklists to find examples. The COINTELPRO operations of the FBI in the 1960's and '70's illustrate that the government has gone to great lengths to undermine political causes like the civil rights and anti-war movements by discrediting their leaders, among other means, by making it difficult for them to find employment. There is every reason to think that similar episodes will be repeated -- or at least attempted -- in the future.

Nationality and ancestry might be another focus of interest. When the government tried to round up all the Iranian students in America during the hostage crisis, it was hampered because Immigration and Naturalization Service records could not pinpoint their exact locations. The likelihood of other such crises in the future, along with growing fears of international terrorism, might be a rationale for expanding the database to include all aliens, whether or not they are employed, and to code the files of citizens as well as aliens for national origin or ancestry. Nationality codes in a population registry would have been useful when the Japanese-Americans were rounded up in the 1940's; they might prove useful again if the government decides to keep track of the potential "sympathizers" of America's adversaries in a diplomatic crisis or war.

Because employment -- or the inability to obtain it -- is a central factor in determining a person's quality of life, a dossier system that can so easily be used to control the employment opportunities and trace the movements of hundreds of millions of people may be the most powerful tool for social control that any government has ever devised. Neither good intentions nor supposedly "stringent safeguards" can, in the long run, prevent its perversion and abuse.

The Standard Universal Identifier

It is too late to argue that the Social Security number should not be used as the standard universal identifier. At least as far as governmental record-keeping is concerned, the SSN is already a universal identifier. There is scarcely a state or federal personal data system that does not use the SSN, from tax and welfare agencies to schools, libraries, and licensing authorities. In addition, records of many private transactions, particularly those involving bank accounts and securities that have tax implications, are required by law to use the SSN.

In 1973 the HEW Advisory Committee warned that the SSN, though not a standard universal identifier in the strictest technical sense, could become so for all practical purposes simply by being used as one. It also noted that the federal government itself was largely responsible for the expanding use of the SSN as a universal identifier.[11]

The HEW Committee examined the reasons that made people fear the standard universal identifier, despite its practical advantages for record management. It predicted that "[t]he bureaucratic apparatus needed to assign and administer an SUI [standard universal identifier] would represent another imposition of government control on an already heavily burdened citizenry." It would lead to a system of mandatory personal identity cards: "Loss or theft of an SUI card would cause serious inconvenience, and the mere threat of official confiscation would be a powerful weapon of intimidation." It would create a national dossier system that "would make it much easier for an individual to be traced, and his behavior monitored and controlled, through the records maintained about him by a wide range of different institutions....A permanent SUI issued at birth could create an incentive for institutions to pool or link their records, thereby making it possible to bring a lifetime of information to bear on any decision about a given individual."[12]

For a time, the Committee's cautions were heeded. In the Privacy Act of 1974, Congress forbade new uses of the SSN in government programs unless Congress itself authorized them.[13] But very soon thereafter, Congress reopened the doors by authorizing the states to use the SSN for the administration of tax, welfare, driver's license, and motor vehicle registration laws, and for the Parent Locator Service.[14] While there have been a few challenges to new governmental uses of the SSN since then -- for example, a suit opposing use of the number for draft registration as a violation of the Privacy Act[15] -- it is clear that Congress will allow new uses that appear to enhance the accuracy and efficiency of data systems management. A databank to verify identification and employment eligibility would undoubtedly be authorized to use the SSN.

In the meantime, the Social Security Administration has taken steps to correct the SSN's deficiencies as a reliable standard identifier. In particular, it has implemented more stringent procedures for personal identification by applicants and attempted to eliminate the issuance of multiple numbers to a single individual.[16] But the SSA's efforts to create a more secure identification system are largely for the benefit of other governmental programs, a point the SSA emphasized when it noted that the benefits of issuing new tamper-resistant cards "would accrue only to other agencies because perpetrating fraud against the social security system by mere possession of a counterfeit or fraudulently obtained social security card is practically impossible."[17] By administering the standard identifier for a wide variety of governmental programs, the SSA has effectively become that "bureaucratic apparatus" described by the HEW Committee.

We have seen that the matching and linkage of separate record systems, as predicted by the HEW Committee, have become commonplace. It is true that records could be exchanged, matched, and linked without the SSN.[18] Nonetheless, the fact that so many systems share the same identifier has been a strong incentive to record-matching, and has encouraged what both the HEW Committee and the Privacy Protection Study Commission called a "drift" toward the universal identifier.[19]

While the standard identifier and large-scale record-matching are accomplished facts in governmental data systems, we believe that a population registry using the SSN would foster two other developments foreseen by the HEW Committee: increased record-matching among private agencies and between public and private agencies, and ultimately the creation of a mandatory identification card.

As was mentioned earlier, banks and brokerage houses are required by law to obtain their customers' Social Security numbers. Employers of course must do so to report earnings to the Social Security System. Other private agencies and businesses are free under the law to use the SSN if they wish to. Many do. Among them are hospitals, insurance companies, credit reporting agencies, utilities, credit-card companies, check-cashing services, colleges, department stores, airlines, hotels, unions, charities. and even undertakers. The growing use of the SSN among private agencies coincides with a growing exchange of information and matching of records between public and private agencies, for instance, the example noted earlier of matches between private employer payrolls and the welfare rolls. A population registry will seek information from employers and other private agencies and in return will give them information. Such exchanges can only encourage universal use of the SSN as an identifier, which in turn will encourage further pooling of records. Eventually, the distinctions between public and private agency record systems--faint as they are even now in some cases--may disappear altogether.

The proliferation of uses of the SSN over the last fifteen or twenty years by both public and private data systems has facilitated the widespread exchange and pooling of personal data. But there are still many practical impediments to the creation of a standard universal identifier and a cradle-to-grave national dossier system. The establishment of a population registry to verify personal identification and employment eligibility, and of its concomitant, the "secure" identity document, will do much to remove those impediments, at incalculable cost to the privacy and civil liberties of our citizens.

Conclusion

In the debate over the privacy implications of using the Social Security number as a universal identifier, perhaps the most important factor to bear in mind is that we are not writing on a clean slate.

In his seminal work Privacy and Freedom, published in 1967, Professor Alan Westin assessed the contemporary computer revolution and its potential effects on civil liberties:[20]

> ...[Als philosphers remind us in a different context, knowledge is power. The issue of privacy raised by computerization is whether the increased collection and processing of information for diverse public and private purposes, if not carefully controlled, could lead to a sweeping power of surveillance by government over individual lives and organizational activity. As we are forced more and more each day to leave documentary fingerprints and footprints behind us, and as these are increasingly put into storage systems capable of computer retrieval, government may acquire a power-through-data position that armies of government investigators could not create in past eras.

Of course, by 1967 computerization both in government and in private business was far advanced and had already brought significant alternations in the life styles of Americans individually and collectively. But the Orwellian prospects of "1984" lay far in the future, and there seemed to be time and opportunity for the nation to make choices that would preserve traditional American freedoms against the incursions of technological change. And in fact many important steps were taken. Congress and the state legislatures, administrative agencies, the courts, and private business all have acted to create "information rights" -- the rights of individuals to learn who is keeping files on them, to examine and correct their files, and to find out how their files are used and who sees them. Legislation like the Privacy Act, the Fair Credit Reporting Act, and the Family Educational Rights and Privacy Act acknowledge the need for people to exercise some control over data that will be used to make decisions that can profoundly affect their lives.

But other aspects of national information policy have not received the same attention. In particular, we have failed to stem the consolidation of data through the exchange, linking, and matching of separate record systems, tapping by agencies into each other's systems, and step-by-step expansion of systems to serve new uses. These developments have been gradual, almost invisible, usually in implementation of public policies that many people support: governmental efficiency, reduction of fraud and waste, better delivery of services, law enforcement. But the process is now far advanced, and we are close to creating that "sweeping power of surveillance by government over individual lives" that Westin described, not deliberately, but as the increment of many expedient but short-sighted policy decisions.

That is why the present controversy over "universal identifiers" takes on special importance. To establish a population registry and an identity document, or either of them alone, could prove the irreversible last step in the loss of personal privacy that all Americans have felt so acutely.

Footnotes

1. New York Times, May 7, 1981, Op Ed Page, "Mortifying Searches," by Chuck Hardwick.

2. Records, Computers, and the Rights of Citizens, Report of the Secretary's Advisory Committee on Automated Personal Data Systems, U.S. Department of Health, Education and Welfare, July 1973, p. 111.

3. Personal Privacy in an Information Society, Report of the Privacy Protection Study Commission, July 1977, Chapter 16.

4. U.S. Commission on Civil Rights, op. cit., p. 65.

5. Federal Advisory Committee on False Identification, op. cit.; Domestic Council Committee on Illegal Aliens, Preliminary Report, December 1976; U.S. Commission on Civil Rights, op. cit.

6. "Inhibiting Illegal Migration." Employment Eligibility and Employer Responsibility," working paper prepared for the Select Commission on Immigration and Refugee Policy" (1980), p. 10.

7. Secretary's Advisory Committee, op. cit., p. 111.

8. Pyler v. Doe, No. 80-1538, _____ U.S. _____ (June 1982)

9. The Dimensions of Privacy, A National Opinion Research Survey of Attitudes Toward Privacy, conducted for Sentry Insurance by Louis Harris & Associates, Inc., and Dr. Alan F. Westin, 1979, p. 5.

10. Secretary's Advisory Committee, op. cit., pp. 111-112

11. Ibid., pp. 121-122.

12. Ibid., p. 111.

13. Public Law 93-579, Section 7.

14. Tax Reform Act of 1976, Public Law 94-455, Section 1211.

15. Wolman, et al. v. United States, Civil Action No. 80-1746, 49 U.S.L.W. 2370 (D.D.C., November 24, 1980) upheld the challenge. The government has appealed.

16. Reissuing Tamper-Resistant Cards, op. cit.

17. Ibid., p. 25

18. Privacy Protection Study Commission, op. cit., p. 613

19. Ibid., p. 618, and Secretary's Advisory Committee, op. cit., pp. 121-122

20. Alan F. Westin, Privacy and Freedom, Atheneum, New York, 1967, p. 158.

Chairman PICKLE. Thank you, Mr. Shattuck.

You raise questions and philosophize on the problem, and you review a bit of history for us.

You don't take a position whether we should issue tamper-proof cards in the SSA program.

Commissioner Svahn earlier this morning stated that there is no way to make the social security number a reliable identifier. Do you agree with that?

Mr. SHATTUCK. I think from what I understand, it would be possible to make the social security number a reliable identifier as such, but whether or not you could successfully screen out the people who were not entitled to have social security numbers is another question.

I am not here addressing that one. I don't understand why he wouldn't consider the social security to be a reliable identifier.

Chairman PICKLE. Perhaps that is because by him it is viewed that anybody can get a card.

Mr. SHATTUCK. There is certainly a lot of concern about obtaining fraudulent documents.

Chairman PICKLE. You represent the American Civil Liberties Union. I would like to have some recommendation from your organization about the use of the social security card. If we start issuing tamper-proof cards that eventually would cover all the beneficiaries, is that taking the last step toward the card as a national identifier?

Mr. SHATTUCK. I think it is, Mr. Chairman.

Chairman PICKLE. If we go this step for all purposes, we have, in effect, adopted the social security card as the national identifier?

Mr. SHATTUCK. History shows us that once you use a social security card and number for a variety of purposes other than the collection of social security, then you are headed in the direction of creating a universal identifier.

If you actually create a card in addition and make it tamper proof and require people to carry it—which is not under consideration at the moment, but I could very easily see us drifting into that situation as well—you are buying into a great deal of difficulty. A system of internal control of this country is really an anathema to our constitutional democracy.

The kinds of passports people have to carry when they travel behind the Iron Curtain or in countries where there are systems unlike ours, are unacceptable to the American people, and for that reason, we would oppose the creation of a tamper-proof, required-carrying identification card.

Chairman PICKLE. If we did not use the social security card as an identifier, or if we were not to enter into the issuance of a tamper-proof card, there may be a push, then, to establish a worker's identification card.

If that route was followed, that would be some other committee or some other policy body, someone other than the Social Security Subcommittee; though it would be left to somebody else to do, would, in effect, the creation of a worker's identification card be much the same as using a social security card?

Mr. SHATTUCK. Same problem. The testimony I have submitted to your committee is very similar to the testimony I have given to the

Judiciary Committee in consideration of the immigration reform laws.

One of the most controversial issues in that area is the employer sanction system and the imposition of criminal penalties on employers who hire illegal aliens. At the heart of that is whether a national work authorization card ought to be issued and required to be carried by American workers.

We strongly oppose that for many of the reasons I have outlined in my testimony.

The Reagan administration is opposed to the issuance of work authorization cards, hopefully for many of the same reasons that we are.

Chairman PICKLE. At the close of your testimony you state that to even consider this question is of paramount significance at that time. You say to establish a population registry and identity document, either step alone would prove the irreversible last step in the loss of personal privacy that all Americans have felt the need for so acutely.

You are saying if we take this last step, starting with a tamper-proof card, this might be irreversible as far as establishing the social security card as an identity?

Mr. SHATTUCK. It would create the social security card as a document that people would have to carry as an identifier.

Chairman PICKLE. How do you answer the fact to which you testified to, banks, mortgage houses, hospitals, insurance companies, and dozens of other organizations and governmental entities require a social security number for transaction purposes now?

Mr. SHATTUCK. Well, I think I make a distinction between a number which can be used and a universal identifier that has to be used.

We live in a free society. If there is a number out there, and I want to use it for a purpose, I suppose I could use it. A lot of private agencies have bought into the convenience factor. They are simply appropriating the social security number and using it for their own recordkeeping systems—I deplore that, but I don't recommend that any legislation be enacted to prohibit that.

I do recommend not permitting the social security number and the card that would go with it to be turned into a mandatory national passport or work authorization system.

Chairman PICKLE. My question to you then is, why does the issuance of a tamper-proof card automatically become a national identifier?

Mr. SHATTUCK. Because it is a governmentally mandated and authorized system. There is a big distinction between what the Government can do and can require and what private agencies can do and choose to do on their own.

I don't think that some college or some other private user of a social security number for its own filing system is at all comparable to what the Government would be doing if it issued a card and required everyone to carry it. As I said in my testimony, of course, the police would then have very broad latitude to conduct identification searches and stops of people in connection with their required carrying of that card.

None of that would apply to private agencies.

Chairman PICKLE. I certainly thank you, Mr. Shattuck.

Mr. Jacobs.

Mr. JACOBS. I think the subject has been adequately covered.

I suppose that without adding any new members or not adding any new cards, they just want to issue one that they want to issue, counterfeit, and that is the danger, you say, preventing the counterfeiting of the present cards?

Mr. SHATTUCK. I am not addressing the problem of counterfeiting and fraud that I gather you have explored here. I am not appearing before you as a witness on that subject.

I realize that there may be interests that the committee has in trying to make sure that the social security system is used only by those who are entitled to use it.

However, I would hate to see the creation of a mandatory card system which was made fraud-proof precisely in order to make sure that it could be used for a whole range of other identification purposes.

Mr. JACOBS. What is the mandatory element any more than the card I have now?

Mr. SHATTUCK. I don't know precisely what proposal has been made by the Commissioner. If he is asking for the authority to do something internally to make sure that the system is not defrauded, and it is not required that people carry the card, then I suppose it is not mandatory.

I would want to look at that proposal a little more closely.

It has not been shared with me.

Mr. JACOBS. Just the naked fact that it would make it a little more difficult for you to fake my card, but that would not bother you too much.

Mr. SHATTUCK. I understand, and I would be happy to look at the proposal and give you some specific comments on it.

Thank you.

Chairman PICKLE. Thank you, Mr. Shattuck.

May I ask Eileen Sweeney and Bernice Bernstein to come forward?

Eileen Sweeney is a staff attorney representing the National Senior Citizens Law Center.

And Bernice Bernstein is the counsel of the Study Group on Social Security.

I will recognize Eileen Sweeney.

STATEMENT OF EILEEN SWEENEY, STAFF ATTORNEY, NATIONAL SENIOR CITIZENS LAW CENTER, WASHINGTON, D.C.

Ms. SWEENEY. Thank you, Mr. Chairman.

I am Eileen Sweeney, a staff attorney at the National Senior Citizens Law Center. I am testifying today at the invitation of the subcommittee and am most appreciative of this opportunity to express our concerns regarding the Social Security Administration's current overpayment collection activities.

NSCLC is a national support center, specializing in the legal problems of elderly poor people. We are funded by the Legal Services Corporation and the Administration on Aging. My responsibilities include working with legal services and aging advocates on the social security and SSI problems of their clients.

In the past few months, NSCLC has been flooded with calls and letters from legal services advocates and their clients describing a variety of actions which the Social Security Administration is taking under the rubric of "debt management." The actions are very disturbing and reflect a nationwide change in policy at SSA, under which SSA ignores and frustrates the clear dictates of section 204 of the Social Security Act. It is this change in policy which results in the bizarre local notices being sent.

In November 1981, Sandy Crank, SSA's Associate Commissioner for Operational Policy and Procedures, issued a memo regarding SSA debt management. On the first page, underlined, Mr. Crank indicated that:

> Development and implementation of the plan is predicated on a shift in SSA's philosophy regarding overpayment resolution; i.e., emphases on recovery (rather than waiver or write-off) and on the speed of that recovery.

The shift at SSA has been toward dehumanizing the process, eliminating consideration of the factors underlying the mandatory waiver requirements set forth at 42 U.S.C. section 404(b), and obtaining repayment regardless of the toll in terms of human suffering and sacrifice.

Two more localized memos spell out SSA's new attitude toward waivers. Region V has instructed its staff that "a request for a waiver of repayment is a request for a very serious concession on the part of the Government."

The district manager of the Grand Rapids, Mich., office notified local legal services and social services programs in May 1982 that, "In very rare circumstances, a request for waiver of the overpayment will be considered." [Not granted, "considered."] Further, "If waiver is to be approved, the administration must find that both conditions of without fault and inability to repay the overpayment are met. These cases are very rare."

It is true that SSA's recent decisions to grant waivers are very rare. There are many individuals who clearly meet section 404(b) requirements who are being discouraged from seeking waiver or who are never told of their right to seek waiver, or whose requests are being denied in clear violation of the statute. It is difficult to obtain data from SSA on this issue. However, attached exhibit D to my written statement are SSA's SSI overpayment collection statistics for the Los Angeles metropolitan area for 1 week in July 1982.

They are not only extremely disturbing, but they establish the extent to which SSA has gone in eliminating the protections of section 404(b) and the analogous SSI provision.

While the statistics apply to SSI overpayments, they are the only statistics available. The message for both SSI and OASDI is the same. They clearly contradict any SSA claims that the abuses are few and random. Of the 1,661 overpayments which SSA acted upon that week in the Los Angeles area, waivers were granted in only 26 cases. In the Watts office of SSA, SSA granted only 1 waiver out of 889 cases. The amount waived was $3.57.

I am aware that in recent weeks SSA has issued memos which appear to modify some of its earlier pronouncements. However, unlike the original extremely rigid memos regarding collections, the tone of the recent memos is that of a reprimanded child who has been instructed to apologize for an action and does so, despite the fact that he would willingly take the same action again and feels no remorse for his actions.

The recent memos fall short on two specific counts: (1) unlike the earlier memos, they do not appear to have been distributed widely to all local SSA personnel; and (2) none of the materials which I have seen mentioned, much less emphasized, that waivers are mandated by the statute and must be granted where the standards are met.

My written statement at pages 4 to 6 includes a number of examples of the types of problems which recipients are facing.

For example, in the past, if a recipient indicated that he or she did not create the overpayment and had no idea how he or she could possibly afford to repay it, SSA staff suggested to the recipient that it might be possible to obtain waiver of recoupment of the overpayment.

That is no longer the case. Instead, elderly women are being encouraged to get jobs to repay the overpayments, and SSA staff are threatening that homes will be taken and fraud prosecutions initiated. SSA staff are not only not mentioning that waiver is possible, they are actively discouraging recipients from seeking reconsideration and waiver.

We have received a number of calls reporting that recipients were told that the only way they could assure they would receive some amount of a monthly benefit was to forgo seeking reconsideration and waiver and agree to have a substantial amount recouped monthly, such as $100 from a $300 benefit.

Mr. Svahn claims that SSA grants waivers in 80 percent of the cases where it can grant waivers. This figure is only possible because SSA claims that a very high percentage of overpayments are the fault of the recipients. Thus, SSA excludes all of those cases from its statistics.

Legal advocates have had just the opposite experience. The pattern is all too familiar: The recipient dutifully reported the change in circumstances, often more than once, but SSA's computer does not reflect the change. Mysteriously, the recipient's files rarely contain any documentation of the calls or letters from the recipient.

In the past, I have generally attributed omissions from the file to either overworked or incompetent SSA staff. However, I have very recently been told that SSA staff have been instructed to discard such communications after 3 months. Apparently, where the recipient's credibility is at stake, SSA is very willing to rely upon its overworked, wholly inadequate computer system. Of course, such a policy is extremely convenient—when SSA decides to collect the overpayment, often years later, the case filed is devoid of any evidence which would corroborate the recipient's statements that the changes were reported.

This obviously undercuts any SSA claims regarding who is at fault, and it should be investigated.

In addition, it is becoming clear that SSA is taking a very rigid approach to what it means to be without fault for waiver purposes. The result is that significant numbers of innocent individuals who either relied upon incorrect information from SSA personnel or reported a change in circumstances once or twice but not 10 times are being denied waivers under a "you should have known we were wrong" standard. The SSA figures should be further discounted to exclude this large group of cases.

The House Select Committee on Aging held a field hearing in Massachusetts in July, chaired by Representative Frank. At that hearing, witnesses alleged that SSA had created job incentives, rewarding those who collected the highest dollar amounts, not those who treated recipients fairly and compassionately. One allegation was that the SSA offices in Maryland had established a scheme to award promotion points to individuals who collected the most money. NSCLS has received calls which raise similar types of questions. We recommend that this subcommittee investigate this area. In addition to the Maryland promotion point scheme, other incentives which should be checked include rewarding days off from work and conditioning the amount of Senior Executive Service bonuses upon the amount of money collected by staff.

The Subcommittee on Administrative Law and Governmental Relations of the House Judiciary Committee is currently considering H.R. 4614, one of the bills aimed at creating overall debt management collection practices for the Federal Government. The bill contains three major flaws from the perspective of social security and SSI recipients.

First, the bill would require administrative offset of any debt owed to the Federal Government from any payment owed by the Federal Government at any time. This includes social security benefits, all other Federal pensions, and all federally funded income maintenance benefits, such as SSI.

As the bill also requires the imposition of substantial interest and penalty charges, it is very likely that some debts will exceed the social security or SSI benefits payable to individuals when they retire or become disabled. These offsets could continue for the remainder of many elderly people's lives. The result will be the creation of a new class of elderly and disabled destitute individuals, with no alternative sources of funds.

Second, the bill would permit SSA to charge interest on social security overpayments. Third, the bill would authorize the use of private bill collectors. If enacted, SSA would have the authority it currently claims to have.

In my statement, I have identified a variety of problems with SSA's collection techniques, including harassing notices, early morning calls, unannounced visits to recipients' homes, threats to withhold benefits where that is not legally possible, failure to provide adequate notice of the right to seek waiver, inappropriate denials of requests for waivers, and withholding 100 percent of monthly checks.

It is difficult to imagine that private debt collectors could be much worse. However, it is frightening to consider that it will be this SSA, with its current abuses, which will be policing the activities of the private debt collection agencies.

SSA intends to implement the use of private debt collections, at least on a pilot-study basis, without implementing legislation. Both public policy and legal concerns dictate against subjecting elderly, blind, and disabled individuals to the tactics of private debt collectors.

First, SSA does not have the statutory authority to contract with private debt collection agencies.

Second, there is no doubt that private debt collectors, much like SSA, will be able to squeeze money from elderly and disabled individuals who cannot afford to repay even $1. If it was the Federal Government's goal to recover all "debts" at any cost and from any person no matter whether they are at fault, use of private debt collectors would make sense. However, at least in social security and SSI, that is not the goal. These tasks are better kept within SSA where, hopefully, tighter controls can be maintained on overzealous collection efforts.

Given the current abuses in overpayment collections at SSA, it would be unwise to broaden SSA's authority to collect debts. SSA should be required to properly implement the requirements of section 404(b) and due process before any consideration is given to the appropriateness of the use of other overpayment collection techniques.

I have not addressed in my statement the question of properly crediting people's earnings records. However, I would like to suggest an interim solution: every notice which SSA sends either granting benefits or denying benefits due to the failure to have adequate quarters of coverage should explain that SSA has this backlog, and, as a result, the benefit amount may be lower or, in the case of denials, nonexistent if the person has worked in the past 3 years.

The notice should also state that the SSA will revise its awards if the beneficiary will supply the earnings documentation. Second, SSA should expedite requests for adjustments based upon the notice. While not a long-term solution, this will at least assist those who are being injured most immediately by the backlog. Thank you.

[The prepared statement follows:]

STATEMENT OF EILEEN P. SWEENEY, STAFF ATTORNEY, NATIONAL SENIOR CITIZENS LAW CENTER

I am Eileen Sweeney, a staff attorney at the National Senior Citizens Law Center. I am testifying today at the invitation of the Subcommittee and am most appreciative of this opportunity to express our concerns regarding the Social Security Administration's current overpayment collection activities.

NSCLC is a national support center, specializing in the legal problems of elderly poor people. We are funded by the Legal Services Corporation and the Administration on Aging. Pursuant to the Law Center's Legal Services Corporation grant, we provide support services to legal services attorneys throughout the country with respect to the legal problems of their elderly clients. Under the Administration on Aging grant, NSCLC provides training and planning assistance to the states, and is developing strategies to resolve the legal problems of older people without the direct delivery of services. My responsibilities include working with legal services and aging advocates on the Social Security and Supplemental Security Income problems of their clients.

In the past few months, NSCLC has been flooded with calls and letters from legal services advocates and their clients describing a variety of actions which the Social Security Administration is taking under the rubric of "debt management." The actions are very disturbing and reflect a nationwide change in policy at SSA, under which SSA ignores and frustrates the clear dictates of §404 of the Social Security Act.

I. SSA's shift to "debt management" from overpayment collections ignores the fact that elderly and disabled recipients are its victims.

a. Changes in Attitude, Policy and Practice

On November 5, 1981, Sandy Crank, SSA's Associate Commissioner for Operational Policy and Procedures, issued a memo regarding "SSA debt management". (Exhibit A). On the first page, underlined, Mr. Crank indicated that:

> Development and implementation of the plan is predicated on a shift in SSA's philosophy regarding overpayment resolution; i.e., emphasis on recovery (rather than waiver or write-off) and on the speed of that recovery.

The "shift" at SSA has been toward dehumanizing the process, eliminating consideration of the factors underlying the mandatory waiver requirements set forth at 42 U.S.C. §404(b)*, and obtaining repayment regardless of the toll in terms of human suffering and sacrifice.

Two more localized memos, following Crank's, spell out SSA's new attitude toward waivers. In one memo, Region V (Chicago) instructed its staff that "a request for a waiver of repayment is a request for a very serious concession on the part of the government." (Exhibit B, page 5). The District Manager of the Grand Rapids, Michigan office notified local legal services and social services programs on May 25, 1982 that, "In very rare circumstances, a request for waiver of the overpayment will be considered." [Not granted, "considered."] Further, "If waiver is to be approved, the Administration must find that both conditions of without fault and inability to repay the overpayment are met. These cases are very rare." (Exhibit C).

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*42 U.S.C. §404(b) provides:

> In any case in which more than the correct amount of payment has been made, there shall be no adjustment of payment to, or recovery by the United States from, any person who is without fault if such adjustment or recovery would defeat the purpose of this subchapter or would be against equity and good conscience.

It is true that SSA's recent decisions to grant waivers are "very rare." However, there are many individuals who clearly meet §404(b)'s requirements who are being discouraged from seeking waiver or who were never told of their right to seek waiver, or whose requests are being denied in clear violation of the statute. It is difficult to obtain data from SSA on this issue. However, attached to this statement are SSA's SSI overpayment collection statistics for the Los Angeles metropolitan area, (Exhibit D), for one week in July, 1982. They are not only extremely disturbing, but they establish the extent to which SSA has gone in eliminating the protections of §404(b) and the analogous SSI provision, 42 U.S.C. §1383(b) and 20 C.F.R. §416.550. While the statistics apply to SSI overpayments, they are the only statistics available. The message for both SSI and OASDI is the same. Of the 1661 overpayments which SSA acted upon that week in the Los Angeles area, waivers were granted in only 26 cases. In the Watts office of SSA, SSA granted only 1 waiver out of 889 cases. The amount waived was $3.57.

I am aware that in recent weeks SSA has issued memos which appear to modify some of its earlier pronouncements. However, unlike the original extremely rigid memos regarding collections, the tone of the recent memos is that of a reprimanded child who has been instructed to apologize for an action and does so, despite the fact that he would willingly take the same action again and feels no remorse for his actions.

The recent actions also fall short on two specific counts:

(1) unlike the earlier memos, they do not appear to have been distributed widely to all local SSA personnel; and (2) none of the materials which I have seen mentions, much less emphasizes, that waivers are mandated by the statute and must be granted where the standards are met.

To provide some perspective to the types of problems I am referring to, I would like to share a few examples of calls or requests for assistance which NSCLC has received recently:

1. Earlier this month, we received a call from Oregon reporting that elderly and disabled recipients are receiving calls from SSA in Baltimore at 6 a.m., placed in Baltimore at 9 a.m. Many states have debt collection laws which protect all consumers from receiving debt collection calls during normal sleeping hours.
2. SSA is sending a variety of highly questionable collection notices to recipients. These include:
   A. Notices to OASDI recipients that they were overpaid SSI at some point in the past. (Exhibit E). The notice indicates that "for your convenience" SSA will be happy to withhold the amount from the person's OASDI benefits. The authorization provides "For my convenience, please withhold my full social security benefit each month until my supplemental security income (SSI) overpayment of $______ is fully recovered." The notice fails to mention that SSA

does not have the legal authority to perform this cross-program collection of overpayments and, therefore, at best, signing such an agreement is voluntary. Further, SSA neglects to mention that even voluntarily agreeing to recovery from OASDI benefits violates 42 U.S.C. §407, which prohibits the transfer or assignment of "the right of any person to any future payment under this subchapter."

B. In Boston, if a person failed to respond to the notice in Exhibit E, SSA sent another notice, threatening to suspend payment of OASDI benefits if the person did not call about the SSI overpayment. (Exhibit F). SSA simply does not have the legal authority to suspend OASDI benefits due to an SSI overpayment. That apparently is irrelevant to SSA: its staff knows that an elderly or disabled recipient who received that notice would act out of fear that his benefits would be suspended.

C. In Tampa, Florida, SSA has flooded the area with "debt collection" notices. They are designed to intimidate the elderly and disabled. Exhibit G, attached, was sent to an 84 year old recipient who is confined to a wheelchair.

D. SSA has begun to make unannounced home visits to collect monies. The attached affidavit of Mrs. Josephine Diorio (Exhibit H), which was filed in Phillips v. Schweiker, Civil Action No. 82-2399-6

(D.Mass.), challenging SSA's efforts to collect SSI overpayments from OASDI benefits, describes Mrs. Diorio's encounter with an SSA representative who appeared unannounced at her door.

E. Many of the overpayments which SSA is now pursuing are very old, often far over six years, and were forgiven or waived by SSA years ago. SSA does not appear to be referring to earlier activity and decisions in these cases. Each overpayment is being treated as if it occurred yesterday and the recipient has the money in hand.

F. In the past, if a recipient indicated that he/she did not create the overpayment and had no idea how he/she could possibly afford to repay it, SSA staff informed the recipient that it might be possible to obtain "waiver" of the overpayment. That is no longer the case. Instead, elderly women are being encouraged to get jobs to repay the overpayments. SSA staff are not only not mentioning that waiver is possible, they are actively discouraging recipients from seeking reconsideration and/or waiver. We have received a number of calls reporting that recipients were told that the only way they could assure they would receive some amount of a monthly benefit was to forego seeking reconsideration and waiver and agree to have a substantial amount, such as $100 from a $300 benefit, recouped monthly.

G. We have received a number of calls reporting notices similar in content to those attached to John Harris' statement, threatening the imposition of interest and penalty charges if the overpayment is not repaid immediately.

b. Possible SSA work incentives to collect money at any cost should be investigated and stopped.

The House Select Committeee on Aging held a field hearing in Massachusetts on July 8, 1982, chaired by Representative Barney Frank. At that hearing, witnesses alleged that SSA had created job incentives rewarding those who collected the highest dollar amounts, not those who treated recipients fairly and compassionately. One allegation was that the SSA offices in Maryland had established a scheme to award promotion points to individuals who collected the most money. NSCLC has received calls which raise similar types of questions. However, we recommend that this Subcommittee investigate this area.*

There is simply no adequate explanation which SSA can provide for providing job incentives (as well as disincentives) to encourage staff to force elderly and disabled individuals to repay monies they do not have. As reflected in 42 U.S.C. §404, it is Congress' intent that monies owed to the trust fund be collected, but in a fashion which assures that the underlying purpose of the program, income security, is maintained. SSA is ignoring the purpose of the program, in a sense viewing all OASDI and SSI recipients of benefits, and failing to provide the safeguards which Congress legislated.

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*In addition to the Maryland promotion point scheme, other incentives which should be checked include rewarding high dollar collectors with days off from work and conditioning the amount of Senior Executive Service bonuses upon the amount of money collected by staff.

c. Contrary to SSA's unsubstantiated claims, recipients are generally not at fault in the creation of overpayments.

SSA claims that a very high percentage of overpayments are the fault of the recipients. Legal advocates have had just the opposite experience. The pattern is all too familiar: the recipient dutifully reported the change in circumstances, often more than once, but SSA's computer did not reflect the change. Mysteriously, the recipient's files rarely contain any documentation of the calls or letters from the recipient. I have generally attributed omissions from the file to either overworked or incompetent SSA staff. However, I have very recently been told that SSA staff have been instructed to discard such communications after three months. Where the recipient's credibility is at stake, SSA apparently is very willing to rely upon its overworked, wholly inadequate computer system. Of course, such a policy is extremely convenient - when SSA decides to collect the overpayment, often years later, the case file is devoid of any evidence which would corraborate the recipient's statements that the changes were reported.

This obviously undercuts any SSA claims regarding who is at fault and should be investigated.

In addition, it is becoming clear that SSA is taking a very rigid approach to what it means to be "without fault" for waiver purposes. The result is that significant numbers of innocent individuals who either relied upon incorrect information from SSA personnel or reported a change in circumstance once or twice but not ten times are being denied waivers under a "you should have known we were wrong" standard. The SSA figures should be further discounted to exclude this large group of cases.

II. H.R. 4614, the "Debt Collection Act of 1982", and SSA's efforts to use private debt collectors will seriously jeopardize the income security of current and future OASDI and SSI recipients and are not good public policy.

The Subcommittee on Administrative Law and Governmental Relations of the House Judiciary Committee is currently considering H.R. 4614, one of the bills aimed at creating overall debt management collection practices for the federal government. The bill contains three major flaws from the perspective of Social Security and SSI recipients.

First, the bill would require administrative offset of any debt owed to the federal government from any payment owed by the federal government. This includes Social Security benefits, all other federal pensions, and all federally-funded income maintenance benefits, such as SSI. As the bill also requires the imposition of substantial interest and penalty charges, it is very likely that some debts will exceed the Social Security or SSI benefits payable to the individual when they retire or become disabled. These offsets could continue for the remainder of many elderly people's lives. The result will be the creation of a new class of elderly and disabled destitute individuals, with no alternative sources of funds.

Second, the bill would permit SSA to charge interest on Social

Security overpayments. Third, the bill would authorize the use of private bill collectors. If enacted, SSA would have the authority it currently claims to have.

I have identified a variety of problems with SSA's collection techniques, including 1) harassing notices; 2) early morning calls; 3) unannounced visits to recipients' homes; and 4) threats to withhold benefits where that is not legally possible; 5) failure to provide adequate notice of the right to seek waiver; 6) inappropriate denials of requests for waviers; and 7) withholding 100% of monthly checks. It is difficult to imagine that private debt collectors could be much worse. However, it is frightening to consider that it will be this SSA, with its current abuses, which will be policing the activities of the private debt collection agencies.

SSA intends to implement the use of private debt collectors, at least on a "pilot-study" basis. Both public policy and legal concerns dictate against subjecting elderly, blind and disabled individuals to the tactics of private debt collectors.

First, SSA does not have the statutory authority to contract with private debt collection agencies. The notice of routine use issued by SSA on January 8, 1982, 47 Federal Register 1025, relies upon a joint GAO/Justice Department regulation issued on April 17, 1981 for its authority. However, that regulation reversed the long-standing position of GAO that the Federal Claims Collection Act does not authorize the use of private debt collectors. Representative Glenn English, Chairman of the Government Information and Individual Rights Subcommittee of the House Committee on Government Operations, has questioned the legality of the April, 1981 joint regulations and cautioned agencies not to rely upon them. Congressional Record, H. 5419 (July 20, 1981).

Second, there is no doubt that private debt collectors, much like SSA, will be able to squeeze money from elderly and disabled individuals who cannot afford to repay even one dollar. If it was the federal government's goal to recover all "debts" at *any* cost and from *any* person no matter whether they are at fault, use of private debt collectors would make sense. However, at least in Social Security and SSI, that is not the goal. These tasks are better kept within SSA where, hopefully, tighter controls can be maintained on over-zealous collection efforts.

Further, given the current abuses in overpayment collections at SSA, it would be unwise to broaden SSA's authority to collect debts. SSA should be required to properly implement the requirements of §404(b) and due process before any consideration is given to the appropriateness of the use of other overpayment collection techniques.

CONCLUSION

SSA is currently creating great emotional and financial crises for many elderly and disabled OASDI and SSI recipients through its callous disregard of the protections included in 42 U.S.C. §404(b) and analogous SSI provisions. The Congress should act to reverse this change in attitude and to protect both recipients from harassment and unfair, illegal collections and the SSA workers who attempt to comply with the statutory requirements.

NSCLC will be pleased to share information which we have about this serious problem with the Subcommittee. Thank you again for inviting me to testify today.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Memorandum

Refer to: SJ

AM-14-6

Date: NOV 0 5 1981

From: Associate Commissioner
for Operational Policy and Procedures

Subject: SSA Debt Management--INFORMATION

To: See Below
(SSA-OOPP-DMPT-81-46)

Date 12
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The Social Security Administration's two top operational priorities for the next two years are implementing the 1981 legislation and improving debt management. The strategy for improving debt management concentrates on debt collection. The SSA Debt Collection Action Plan (Attachment) outlines the tasks to be undertaken to meet our debt collection goals. The two major goals are:

- o to resolve old debts by the end of Fiscal Year (FY) 1983 by using special efforts; and
- o to establish policies, procedures and systems that allow us to remain completely current at all times on our accounts receivable.

In general terms, the goal is to retire debt at approximately the same rate at which new debts are established and to resolve old debts as quickly as possible.

We have begun the significant task of implementing the SSA Debt Collection Action Plan which hones in on the collection, prevention and detection of all SSA administered program overpayments.

Development and implementation of the plan is predicated on a shift in SSA's philosophy regarding overpayment resolution; i.e., emphases on recovery (rather than waiver or write-off) and on the speed of that recovery. Therefore, it is imperative that all SSA operating personnel be kept informed of the agency's position and of on-going activities. For this purpose, a General Series Program Circular has been prepared

ADDRESSEES
All Regional Commissioners
All Area Directors
All DOs/BOs/TSCs
All Resident Stations
All SSAPSC's, DIO and ODO
Thru: OCO

and will be received by operating personnel by early December 1981. Basically, the circular will provide general information regarding the plan, those steps that have already been taken and the immediate role of each employee involved in overpayment resolution and recovery.

This memorandum provides an overview of debt management in SSA that includes background information on President Reagan's directive, the applicability of the Presidential Directive to SSA's accounts receivable, the problem definition, the problem solution and FY 1982 and FY 1983 projected overpayment collections.

I. Background - Presidential Directive

As a result of studies and recommendations by the General Accounting Office concerning the collection of debts owed to the Federal Government, President Reagan issued a directive on April 23, 1981 in which he noted that, "The burden of delinquent debt owed to the Federal Government continues to grow each year and is contributing to our serious problem of inflation. We must again establish the principle that debts to the Federal Government must be paid." In response to this directive, Federal agencies are required to institute " . . . an aggressive program for strengthening Executive Branch debt collection practices . . ."

The Office of Management and Budget (OMB) has provided agencies with the following objectives and guidelines for complying with the President's directive:

A. Objectives as set forth in OMB Bulletin 81-17

1. "Implementing aggressive debt collection practices to quickly recover that portion of the current backlog of delinquencies deemed collectable;
2. "Implementing effective (debt) management procedures to prevent unnecessary new delinquencies; and
3. "Taking firm action to recover newly occurring delinquencies and defaults."

B. Guidelines as set forth in OMB's Report on Strengthening Federal Credit Management - January, 1981

1. "Organizational responsibility for servicing and collecting receivables should be independent of the credit extension (benefit payment) functions in agencies."
2. "Managers should be held directly accountable for their performance in credit management and debt collection."
3. "Accurate, comprehensive, timely reporting of receivables and the condition of those receivables must be established."

4. "Increasing the in-house capability and effectiveness of agencies through the commitment of additional personnel, hardware and software for automated support. Without automated support, it would be physically impossible for most agencies to deal timely and effectively with the sheer volume of accounts."

5. "The government should be allowed to report delinquent and defaulted debtors to credit bureaus, thereby affecting their credit ratings and encouraging timely payment."

6. "The government should utilize private sector resources to supplement its collection efforts."

II. Applicability of Presidential Directive to SSA's Accounts Receivable

In order to establish a debt management plan, SSA first had to identify the sources of its accounts receivable; i.e., those items and responsible parties for which and from whom collections are to be made because of sums owed. Once it was determined that more than 99 percent of SSA's accounts receivable consist of program administered overpayments, the decision was made that the SSA plan would focus on these overpayments. The concept of "debt management" as it applies to SSA program administered responsibilities refers to two activities: collection and prevention; i.e., those activities which identify and collect monies owed to the Federal Government as a result of program overpayments and those which prevent the creation of program overpayments and ensure that potential overpayment creating situations are effectively detected and monitored.

III. Problem Definition

Although SSA's debt management performance has been improving and is expected to continue to do so, the following problems have hampered SSA's action to minimize the loss of monies caused by overpayments and associated recovery costs:

1. Lack of definitive across-the-board strategy for debt prevention, detection and collection actions.

2. Lack of ADP capabilities for the effective support of billing, accounting and management information functions.

3. Statutory, judicial, regulatory and procedural impediments to debt prevention and debt collection actions.

SSA's immediate debt collection problems are primarily associated with delinquencies in the repayment of overpayments under the Disability Insurance (DI) and Supplemental Security Income (SSI) programs. These delinquency problems are two-fold: (1) the existence of current delinquencies and (2) the trend of continual accretion of delinquencies.

A major reason for the delinquency problems is a dependency on recovery by cash collection because there is less opportunity to recover DI and SSI overpayments by benefit adjustment (offset). When offset is not available, SSA does an inadequate job of collecting its debts. These poor collection results occur because of a lack of prompt, personal attention to the pursuit and resolution of delinquencies. This conclusion is supported by the successful results obtained in a number of SSA locations when management emphasis, concentrated effort and personal accountability measures have been locally instituted.

IV. Problem Solution - Debt Management Initiatives

The SSA Debt Collection Action Plan which was prepared in response to OMB Bulletin 81-17, was forwarded to OMB on September 15, 1981. The plan is the method by which SSA will meet its commitment to improve its debt management. This plan indicates that the major SSA initiatives are:

1. Clarify and concentrate debt management responsibilities;
2. Improve and standardize debt management policies, procedures and practices;
3. Improve ADP support for debt management functions;
4. Establish improved money management incentives and procedures; and
5. Establish improved capabilities for debt management analyses and controls.

V. Fiscal Year 1982 and 1983 Projected Amount of Overpayment Collections Made by Utilizing SSA's Debt Collection Action Plan

Based on implementation of the aforementioned initiatives, the chart below summarizes for FY 1982 - 1983, the anticipated amount of overpayment collections, collection costs and the net savings. These projected figures are part of SSA's amended FY 1983 Budget.

($ in thousands)

	FY 1982	FY 1983
OASI		
o Anticipated Collections	$570,278	$828,529
o Collection Costs	82,206	82,708
o Net Savings	$488,072	$745,821

DI

o Anticipated Collections	$116,603	$133,340
o Collection Costs	31,001	29,518
o Net Savings	$ 85,602	$103,822

SSI

o Anticipated Collections:		
o Federal Assistance	$276,253	$298,007
o State Supplementation 1/	65,104	70,289
o Collection Costs	65,759	64,428
o Net Savings	$275,598	$303,868

BL

o Anticipated Collections	$ 1,168	$ 1,172
o Collection Costs 2/	306	282
o Net Savings	$ 862	$ 890

All Federal Programs

o Anticipated Collections	$1,029,406	$1,331,337
o Collection Costs:		
o Program	179,272	176,936
o Special	4,485	6,419
o Net Savings	$ 845,649	$1,147,992

1/ State supplementation collected from overpaid recipients is paid to States and thus does not produce savings for the Federal budget except to the extent that such corrective action reduces the Federal fiscal liability for overpayments. Administrative costs of making such collections are borne by SSA.

2/ Costs of collecting Black Lung overpayments are not available since this activity is captured with all post-entitlement activities in SSA's work measurement system. Amounts shown are estimates paralleling DI program experience.

In conclusion, it is obvious that the success of our Debt Collection Action Plan is dependent upon a firm commitment by all personnel. Your contributions toward the formation of the plan and its initiatives have been very helpful. In the months ahead, your opinions and assistance will continue to be solicited and you will be kept informed of all major milestones as the implementation proceeds.

Sandy Crank

Attachment

cc:
All SSA Executive Staff
Chief, Administrative Law Judge
All Regional Chief Administrative
  Law Judges
All Field Assessment Officers
All Hearing Offices
All OOPP Office Directors

Memo staff 12/14/81

ADVANCE COPY

DEBT MANAGEMENT Bulletin

REGION V

Social Secur
Administration

No. 81-1

This is the first in a series of Region V Debt Management Bulletins designed to keep you informed of debt management activities. With the full support of Commissioner Svahn, activities have been developed at a rapid pace in central office, and consequently here in the regional office, in reaction to the Office of Field Operation's directives. These bulletins will contain information which will apprise field managers and technical employees of the new initiatives as decisions are being made and communicated to us.

DECISIONS ON DEBT MANAGEMENT POLICY

You will recall that the Commissioner has designated Sandy Crank, the Associate Commissioner for Operational Policy and Procedures as Debt Management Coordinator. He has made a number of policy decisions designed to intensify and increase the effectiveness of our collection efforts. Extensive development of most of these issues will be needed before they can be implemented. These decisions are being presented here, with information on the general status of implementation, as they provide a good picture of the direction we are headed:

Issue 1: Current administrat [illegible] for debt collection efforts differ among SSA's progr [illegible] er reflect the costs of debt collection activities.

Decision: The following adminis [illegible] ances on overpayment development will apply to all progr [illegible] sters:

a) Overpayment [illegible] nd automated notices; do not send manual notices. [illegible] waiver automatically if requested.

b) Overpayment $1 to $29.99 - Send automated notices; send manual notice if payment adjustment available or if notice is being prepared for another reason.

c) Overpayment $30 to $199.99 - Notice always sent; pursue collection except:

   1) estate
   2) bankruptcy
   3) referral to General Accounting Office (GAO)

d) Overpayment $200 to $599.99 - Notice always sent; full pursuit except GAO.

e) Overpayment over $600 - No administrative tolerance.

Status: Systems requests are being initiated and Program Operations Manual System (POMS) instructions are being revised. These tolerances may now be used in all Supplemental Security Income (SSI) cases since SSI overpayment notices are manually prepared. They should not be used for title II or Black Lung cases until POMS instructions are received.

Issue 2: We will propose 100 percent adjustment of a benefit to recover an overpayment if full and immediate refund is not received. We should establish a policy for response if the debtor balks at 100 percent withholding.

Decision: We will negotiate repayment terms with the most lenient installment or refund agreement being a maximum of 36 months and a minimum of $10 per month.

Status: POMS instructions are being revised. You may implement immediately for SSI cases.

Issue 3: Interest and Penalties

Decision: The charging of interest for installment payments and addition of penalties for late payment are being considered.

Status: The provision is not being implemented at this time pending approval and issuance of regulations. Systems capability also needs to be developed.

Issue 4: Mandatory cross program adjustment to collect overpayments of title II, title XVI, and Black Lung benefits.

Decision: SSA is studying the feasibility of submitting a legislative proposal.

Status: The provision is not being implemented at this time as legislation is necessary.

Issue 5: Under current policy, deduction of title II benefits for repayment of overpayments is not considered income for title XVI purposes.

Decision: Define deductions for repayment of overpayments as income for purposes of title XVI.

Status: Implementation is delayed pending systems changes and further instructions.

Issue 6: Waiver can be requested at any time.

Decision: Change to allow requests for waiver only within 60 days of receipt of the overpayment notice unless good cause or a substantial change in circumstances is established.

Status: The provision is not being implemented at this time pending a regulatory change.

Issue 7: Release of information on debtors to credit bureaus and referral of uncollected accounts to collection agencies.

Decision: Commercial credit bureaus and collection agencies should be used. A pilot test will be conducted to determine referral criteria.

Status: The provision is not being implemented at this time as the Office of General Counsel review is pending.

Issue 8: Referral of certain overpayments to the General Accounting Office for collection or for referral to the Department of Justice.

Decision: SSA should cease referral to GAO and retain responsibility for collection or referral to the Department of Justice.

Status: Delay implementation until procedure worked out and revised POMS instructions are issued.

Issue 9: There are an estimated 1.5 million recipients of SSA program benefits for whom we do not have a social security number. Enumeration of these recipients would provide a basic tool in preventing and identifying overpayments.

Decision: SSA will take action to identify and issue social security numbers to the backlog of unenumerated recipients and tighten administrative procedures to ensure against a recurrence of this problem.

Status: Delay implementation until POMS instructions are received.

Issue 10: There is a great deal of subjectivity in determining necessary and ordinary living expenses to determine if a recovery would "defeat the purpose of the Act."

Decision: Set specific income and resource standards to determine if recovery would "defeat the purpose of the Act" to eliminate the need to consider expenses in individual cases.

Status: Delay implementation until standards are determined and POMS revisions are issued.

POMS DRAFT REVISIONS

While work is being done to implement the above changes, the Office of Operational Policy and Procedures is revising the POMS instructions on overpayment development. The regions have each commented on a draft revision of the instructions. Decisions have been made to revise procedures to reflect a clear commitment to overpayment recovery. The POMS revisions should be issued in late December. In the meantime, the following overpayment recovery policies have been identified for immediate implementation by field offices. (These policies apply to all titles unless otherwise indicated.):

I. General Policy Statements

Philosophy of Overpayment Resolution:

SSA's philosophy in the resolution of overpayments is to (1) recover the overpayment, (2) recover the overpayment as quickly as possible, and (3) where overpayment recovery is inappropriate (e.g., waiver is approved) or impossible, resolve the debt (by correctly categorizing it or referring it to the proper authority) as quickly as possible. The emphasis in SSA's approach to overpayment resolution is on recovery because overpayments represent incorrect expenditures to trust fund or tax monies and should be recovered whenever possible. Although the overpaid person may be completely blameless in causing the overpayment, the fact that the person incorrectly (or inappropriately) received government funds is reason enough to expect repayment. In unusual circumstances a waiver of repayment of the overpayment can be allowed.

Debt Resolution Process:

The overpayment resolution process begins at the point the debt is discovered. The fact, amount, and liability for repayment of the overpayment should be communicated to the overpaid individual as soon as possible. If the overpayment is discovered because of an oral communication (telephone call or interview), the liability for repayment of the overpayment should be communicated during the first oral contact. Written notice regarding the overpayment is always sent. The written notice should always request full and immediate refund. Whenever the liable person is in payment status, the notice should propose withholding of all benefits until the overpayment is recovered, unless full refund is received within 30 days of the notice.

If the liable person requests a lower rate of withholding or an installment repayment plan, the fastest repayment plan possible should be negotiated. This repayment plan should never exceed 36 months and should never involve monthly payments less than $10. Where the liable person claims he cannot repay the debt this quickly, he must document all of his income, resources and expenses, and SSA will decide the proper repayment plan.

to pay a portion of the debt immediately and be relieved from further liability), the compromise can be accepted if it is for at least 60 percent of the debt or if it represents the most a person can pay based on his income, resources, and expenses. (When payment offset will be available within the next 3 months, compromise is only allowed if the offer is for at least 80 percent of the debt.)

If the liable person requests a reconsideration of the finding that led to the overpayment, this request for reconsideration should be treated in the same manner as any other request for reconsideration (i.e., not involving an overpayment). The reconsideration request should be processed as quickly as possible to enhance the agency's potential for collecting the overpayment if the reconsideration results in a confirmation of the overpayment.

If the liable person requests waiver of repayment of the overpayment, the request should be developed. A request for a waiver of repayment is a request for a very serious concession on the part of the government. In order to qualify for a waiver of repayment of an overpayment, the liable person must always be found to be without fault in causing or accepting the overpayment. In addition, the person must prove that it would "defeat the purpose of the Act" to collect the overpayment; or that it would be against equity and good conscience to collect the overpayment.

Control of Overpayment Repayment

After response (or lack of response) to the initial notice of overpayment, overpayments are considered collectable if there was no request for waiver or reconsideration. If the overpayment is to be collected by payment adjustment, the system will control the collection of the overpayment (after any necessary initial triggering of the automatic payment adjustment). If payment adjustment stops before full collection of the overpayment, a notice requesting full refund of the remaining overpayment should be sent.

On all overpayments that are to be repaid by refund (in full or by installment payments), very strict control of the account must be maintained in order to ensure maximum "collectability" of the overpayment. If possible, the responsible office should send monthly bills for installment payments due and should develop a special procedure to address delinquency in overpayment repayment. As an overall goal, the special procedure should identify delinquencies within ten days of when the payment should have been made and, through a combination of mailing dunning letters, making telephone calls, and making personal visits, prevent the debt from becoming delinquent for three months in a row.

When the debtor does not respond to SSA's requests for repayment; or when he or she responds that he is unwilling to repay the overpayment, there are four possible actions which SSA can take: (1) request repayment of the debt through payment offset from persons who have contingent liability, (2) suggest a "compromise" proposal to the liable person, (3) refer the case to GAO (which will make a final collection effort and refer the case to the Department of Justice for suit if appropriate), or (4) suspend collection of the overpayment (cataloging the overpayment as a "bad debt"). When any of these actions are taken, the liable person should be notified. In the case of the suspension of the pursuit of the collection, the notice to the liable person should inform him or her of the liability for the debt and of the fact that future program payments will be withheld to collect the debt. For certain categories of bad debt, SSA will occasionally remind the liable persons of their debt and request repayment.

II. Specific Policy Changes

NOTE: As mentioned above, the POMS overpayment instructions (in GN 02201-02290) are being revised and new transmittals will be issued. Although the specific POMS instructions are not out yet, the following procedural changes can be implemented on a case-by-case basis. Other, more specific, changes will be implemented by the new transmittal. These changes apply to title XVI only unless otherwise specified:

Administrative Tolerances

The tolerances explained under Issue 1 in the "Decisions on Debt Management Policy" portion of this bulletin should be implemented for SSI overpayment development effective immediately.

Refunds

In every overpayment, full refund is the preferred method of repayment (all titles).

Notices

All initial notices of overpayment will include a request for refund. When adjustment of current benefits is possible, 100 percent adjustment will be proposed. Title XVI letters, SSA-8170U2 and SSA-8173U2 are obsoleted. The SSA-8171U2 should be used. It is suggested that DO's "bill" debtors who are paying on monthly installments and they should establish strict follow-up controls. (The attached exhibit contains a sample billing format.)

Adjustment

If a debtor requests withholding of a current payment at a rate other than 100 percent, we may adjust at a rate no lower than $10 per month and not to exceed 36 months. If the debtor requests adjustment at less than $10 per month or for a period to exceed 36 months, financial hardship must be established. If an individual whose overpayment is being withheld becomes ineligible for benefits, the remainder of the overpayment must be refunded within the original 36 month period. Also, adjustment of a title II check to recover a title XVI overpayment should be suggested by the DO.

Referral

When an overpayment is referred to GAO a certified notice should be sent to the individual.

Compromise Offer

If the debtor has proposed a compromise offer and offers a payment, the DO should accept the payment and provide a written receipt which clearly indicates that acceptance of the payment does not represent acceptence of the compromise offer. Also, criteria for acceptance of a compromise has been changed to accept an offer of 60 percent (formerly 75 percent); if collection by adjustment is expected to be available within three months, the offer must be 80 percent. Compromise settlements must now be paid within 30 days of acceptance of the offer.

Fragmentation of an SSI Overpayment

The prohibition against fragmentation is eliminated. Overpayments may now be addressed for prior closed quarters even if the current quarter cannot be addressed.

Reconsideration

Waiver development is no longer routinely undertaken when an individual requests reconsideration. Also, if adjustment has been initiated and the recipient requests reconsideration within 10 days, reinstate but do not repay any amount withheld.

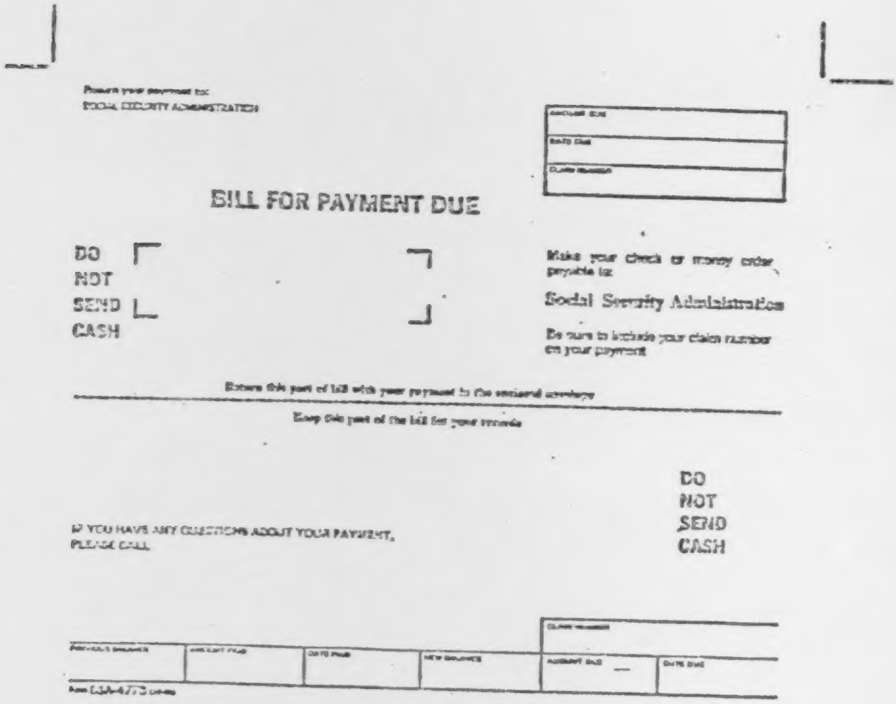
Summary

The total outstanding debt due SSA at this time has accumulated to about $1.9 billion. The initiatives listed here, as well as many more which will be forthcoming, will enable us to give full support to the Commissioner's expectation that we can substantially improve our collection performance.

Our next issuance in this series of bulletins will provide information on several model debt collection units which will be established in this region in the next few weeks. Regional training plans and other policy and procedural changes will also be covered.

Exhibit

Sample Bill (Where Monthly Billing is Employed)



Return your payment to:
SOCIAL SECURITY ADMINISTRATION

AMOUNT DUE
DATE DUE
CLAIM NUMBER

BILL FOR PAYMENT DUE

DO
NOT
SEND
CASH

Make your check or money order payable to:

Social Security Administration

Be sure to include your claim number on your payment

Return this part of bill with your payment in the enclosed envelope

Keep this part of the bill for your records

DO
NOT
SEND
CASH

IF YOU HAVE ANY QUESTIONS ABOUT YOUR PAYMENT,
PLEASE CALL

CLAIM NUMBER

PREVIOUS BALANCE	AMOUNT PAID	DATE PAID	NEW BALANCE	AMOUNT DUE	DATE DUE

Form SSA-4773 [illegible]

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

Refer to

250 Monroe NW
Grand Rapids MI 49503

May 25, 1982

Dear Director:

Recently President Reagan ordered the heads of all Federal Departments and Agencies to institute more effective debt collection practices and better credit management. President Reagan said, "We must again establish the principle that debts to the Federal Government must be paid."

Based on this directive, Social Security Commissioner, John Svahn, has ordered that debt management be a number one priority and that special debt collection units be set up in every district office to control all overpayments more closely. The Grand Rapids office is responsible for the control of overpayments in the following counties: Kent, Newaygo, Barry, Montcalm, Ionia, Allegan, and part of Ottawa.

Initial emphasis is on collecting the entire overpayment in a lump sum. Installment payments, while discouraged, will be accepted. Interest and penalties may be instituted on late installment payments in the near future.

In very rare circumstances, a request for waiver of the overpayment will be considered. If waiver is to be approved, the Administration must find that both conditions of without fault and inability to repay the overpayment are met. These cases are very rare.

The normal appeals process (reconsideration, hearing, Appeals Council review, court action) is available within the 60 day time frame allowed for appeal. The appeals process should be used only if the individual disagrees with the accuracy of the overpayment, i.e. the amount of the overpayment or reason for its occurrence.

This information is provided to keep you informed of our current policies regarding all overpayments. I know that often your agency receives inquiries which should be directed to us. If you have any questions, please contact us at 456-2241.

Sincerely,

Robert P. Fleminger

Robert P. Fleminger
District Manager

SL/111

LA. METROPOLITAN
CURRENT PAY OVERPAYMENT
REPORT

(B3)

OFFICE	Total B3 RELEASED #	$ Amount	Clearances #	$ Amount	Waivers #	$ Amount	Total Pre 1982 PNDG #	$ Amount	Clearances #	$ Amount	Waivers #	$ Amount
Los Angeles	1022	383,426.34	141	63,461.66	0	0	9	8,286.03	0	0	0	0
Watts	1358	644,817.22	889	395,565.31	1	3.57	25	22,681.25	6	3,344.36	0	0
Glendale	656	287,835.18	105	44,106.72	4	4370.49	2	847.48	2	3,102.13	0	0
Burbank	200	90,930.76	35	12,681.29	4	2850.17	4	3692.99	0	0	0	0
Lacrescenta	98	50,672.00	61	25,620.00	5	2116.00	1	713.00	0	0	0	0
District	954	429,487.94	201	82,408.01	13	9336.66	7	5,253.47	2	3,102.13	0	0
Hollywood	814	390,603.14	2	1,630.00	0	0	46	31,706.62	7	5,410.47	0	0
Wilshire Center	264	142,398.90	21	10,547.90	0	0	60	31,178.87	3	1,727.00	0	0
Miracle Mile	270	174,203.59	13	3,090.54	1	128.20	0	0	3	1,249.04	1	100.00
District	1348	707,195.63	36	15,268.44	1	128.20	106	62,885.49	13	8,386.51	1	100.00
Huntington Park	650	316,067.77	168	116,710.62	6	11,763.51	0	0	0	0	0	0
University Village	548	207,805.24	21	18,676.84	0	0	224	109,206.64	12	7,812.57	0	0
Downey	79	34,555.77	1	1,279.09	0	0	18	7,848.24	0	0	0	0
District	1277	558,428.78	190	136,666.55	6	11,763.51	242	117,054.88	12	7,812.57	0	0
Van Nuys	519	587,010.60	39	24,312.00	0	0	13	15,413.00	3	4272.00	1	4808.58
San Fernando	350	189,064.00	74	52,484.00	0	0	4	4,181.00	0	0	0	0
N. Hollywood	244	240,654.00	91	55,562.00	5	75.00	5	1,185.00	0	0	0	0
District	1113	1,016,728.60	204	132,358.00	5	75.00	22	20,779.00	3	4272.00	1	4808.58
Area Totals	7072	3,740,084.51	1661	825727.97	26	21,306.94	411	236,940.12	36	26917.57	2	4908.58

LA METROPOLITAN
NON PAY OVERPAYMENT
REPORT

(B5)

	Total B5 Released #	$ Amount	Clearances #	$ Amount	Waivers #	$ Amount	Total Pre 1982 PNDG #	$ Amount	Clearances #	$-Amount	Waivers #	$ Amount
Los Angeles	381	390,732.76	59	52,087.67	1	583.50	201	204,506.03	8	11,961.84	1	137.00
Watts	179	189,367.12	51	42,677.87	0	0	245	270,553.54	21	23,219.84	1	9,521.60
Glendale	157	168,244.56	3	286.78	0	0	29	45,576.60	6	3,143.79	1	1396.50
Burbank	45	38,850.34	5	9,311.81	0	0	7	10,843.62	1	2120.40	0	0
Lacrescenta	35	31,151.00	4	351.00	0	0	22	17,683.00	2	755.00	1	463.00
District	237	238,245.89	12	9949.59	0	0	58	74,103.22	9	6,619.19	2	1859.50
Hollywood	157	220,396.59	3	683.60	0	0	170	197,611.56	0	0	0	0
Wilshire Center	77	66,061.73	3	1,756.10	0	0	77	71,876.99	3	1,709.99	0	0
Miracle Mile	45	40,748.74	1	187.70	0	0	18	13,063.18	7	5,133.31	0	0
District	279	327,207.06	7	2,627.40	0	0	265	282,551.73	10	6,843.30	0	0
Huntington Park	179	197,978.87	29	57,726.20	1	4612.50	131	182,231.63	0	0	0	0
University Village	153	162,999.72	8	3,111.94	0	0	305	396,179.60	1	1079.00	0	0
Downey	30	38,060.90	0	0	0	0	55	35,158.66	2	1338.09	0	0
District	362	399,036.49	37	60,935.14	1	4612.50	491	613,519.89	3	2417.09	0	0
Van Nuys	155	151,219.00	30	31,969.00	0	0	29	29,866.00	2	5198.00	0	0
San Fernando	75	80,130.00	13	24,117.00	0	0	47	68,071.00	0	0	0	0
N. Hollywood	60	143,493.00	7	4,141.00	0	0	29	30,628.00	1	4630.00	0	0
District	290	374,972.00	50	60,227.00	0	0	105	128,705.00	3	10028.00	0	0
Area Totals	1728	1,919,923.32	216	228,407.67	0	5196.00	1365	1573,989.46	54	61,126.26	6	11,518.10

Supplemental Security Income Notice of Action to Recover Overpayment

From: Department of Health and Human Services
Social Security Administration 26 Palmer St., Lowell, MA 01852

Date: 5/[illegible]

Social Security Number:

There is an outstanding $ [illegible] balance on your supplemental security income overpayment due the Social Security Administration.

Please refund the $[illegible] immediately. Make your check or money order payable to the Social Security Adminstration, social security number 017-[illegible], and mail it in the enclosed envelope.

If you cannot make full refund at this time, please refund as much as you can and contact us to arrange for refunding the balance. For your convenience, we can withhold the balance of your overpayment from your social security benefit.

If you would like to use this method of repaying your overpayment, please sign the attached statement and return it to us in the enclosed envelope.

If you wish to discuss a different method of repaying the overpayment, call, write or come into this office.

Enclosures : Envelope
SSA-795

- -

Name

SSN

For my convenience, please withhold my full social security benefit each month until my supplemental security income (SSI) overpayment of $ [illegible] is fully recovered.

Signature

Date

DCU/1B

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration

Refer to

Room 250
Park Square Building
31 St James Avenue
Boston MA 02116

223-7392

June 2, 1982

Boston, Ma. 02118

IMPORTANT NOTICE

OVERPAYMENT AMOUNT 646.74

On April 23,1982 we sent you notification that you were overpaid on Supplemental Security Income, and you therefore owe the U.S. Government money.

To date we have not heard from you. You MUST call me at the above number so we can discuss the disposition of this overpayment, If we do not hear from you by 6/18/82 we will be forced to suspend payment of your Social Security Checks.

If you cannot make full refund at this time, please refund as much as you can and contact us to arrange for refunding the balance in monthly installments. For your convenience, we can withhold monthly installments from your Social Security checks.

If you wish to discuss a different method of repaying the overpayment, you MUST call me before the above date.

Sincerely,

Robin Johnson
Robin Johnson
Service Representative

DEPARTMENT OF HEALTH & HUMAN SERVICES

Social Security Administration
DEBT COLLECTION UNIT

Refer to:

700 TWIGGS STREET
P.O. BOX 39
TAMPA, FLORIDA 33601

Gen Del
Tampa, Fl. 33602

Aug 2

NOTICE

WE HAVE NOT RECEIVED PAYMENT ON YOUR ACCOUNT. WE MUST DISCUSS THIS TODAY. PLEASE CALL ME WITHIN

48 HOURS

PHONE: 228-2832

SINCERELY,

Mrs. Bagwell
DEBT COLLECTION REPRESENTATIVE
DEBT COLLECTION CENTER

Notice to an 84 yr old
Wheelchair claimant

AFFIDAVIT OF JOSEPHINE DIORIO

I, Josephine Diorio, do hereby depose and state that:

1. I reside at 303 Maverick Street, East Boston, Massachusetts 02128, with my husband, Anthony Diorio.

2. I am 71 years of age. My husband, Anthony, is 64 years of age.

3. In May 1982, I received a Notice of Action to Recover Overpayment from the Social Security Administration informing me of an outstanding balance of $524.43 on a Social Security Administration overpayment due to the Social Security Administration, and demanding that I pay that amount immediately. This notice offered to withhold the $524.43 from by Social Security check.

4. I have not agreed to pay the $524.43 to the Social Security Administration or to have any money withheld from my Social Security benefits because the $810 we receive from Social Security each month just covers our necessary and ordinary living expenses.

5. On the afternoon of Wednesday, August 4, 1982, a man came to my home. He said he was from Social Security and was here about the SSI overpayment.

6. He did not show me any written or picture identification. I did not know his name.

7. Usually, I am alone during the day, but on August 4 my daughter-in-law and her two children were with me.

8. I let the man come into my house because he said he was from Social Security.

9. When he came inside, he said that he had come to collect the $524.43. He insisted that I would have to pay this amount.

10. I told him that I could not afford to pay this much money to SSA, and that I could not remember any reason that I could have been overpaid. The man told me that the overpayment occurred in 1976 and that I should be able to remember that far back.

11. He compared an SSI overpayment to a charge account bill from Jordan Marsh. Just as I would have to pay Jordan Marsh if I bought merchandise, so would I have to pay Social Security because I owed money. I protested that I would never owe money to Jordan Marsh because I couldn't afford to accumulate bills, and I do not understand how I could owe money to SSA.

12. He showed me several forms, and asked me if I had signed any of them.

13. The man left after I told him that I had consulted Greater Boston Elderly Legal Services and that he would have to contact my lawyer there if he had any more questions.

14. I was very upset and frightened by the man's visit to my house. Since May, I have been concerned about the possibility of an overpayment to me, and when someone from Social Security came to my home saying he had come to collect the money I was extremely upset.

15. I contacted Greater Boston Elderly Legal Services on August 5, 1982, and told them what had happened the previous afternoon.

16. I have been informed by my representative from Greater Boston Elderly Legal Services that she called the Social Security office on August 5, 1982 and was told that the man who visited my home was Mr. Taraburelli, a worker from the Chelsea Social Security office.

Signed and sworn under the pains and penalties of perjury this 10th day of August, 1982.

Josephine Diorio

Chairman PICKLE. Thank you.

Next, Ms. Bernstein.

STATEMENT OF BERNICE L. BERNSTEIN, COUNSEL, STUDY GROUP ON SOCIAL SECURITY

Ms. BERNSTEIN. Mr. Chairman, I am Bernice Bernstein, and I speak today on behalf of the Study Group on Social Security.

That group was organized in 1978. Its objective is the dissemination of information, primarily with a focus on public policy but including relevant legal and administrative issues, concerning the interests of families, children, youth, minorities, and all persons affected by our social security programs.

It seeks to promote its objectives through monitoring, analyzing, interpreting, and disseminating information about developments in these areas. As a nonprofit activity, most of its work is performed by volunteers, pro bono publico, who have indepth training and experience in these programs.

My comments reflect almost 45 years in the social security system as a lawyer and as an administrator, and almost 14 years as a regional director for all of the health, education, and welfare programs of the Federal Government in the most densely populated area of our country; namely, the area that is served by the regional office in New York City.

I, therefore, am hoping to focus my testimony on the policy and legal issues that have been raised by the SSA's recent campaign to collect overpayments as just one area of evidence of what I believe is an excessive zeal on the part of the Social Security Administration to protect the public purse.

Chairman PICKLE. What kind of zeal did you say?

Ms. BERNSTEIN. Excessive zeal, yes. That is my personal opinion, sir. And may I add that I deem it a privilege in my personal capacity to appear before you and this subcommittee.

Chairman PICKLE. Well, we are glad to have you, Ms. Bernstein, and you represent some people we have had a lot of contact with.

Ms. BERNSTEIN. My statement, that I would like to submit for the record, has five examples that illustrate the serious problems inherent in the reversals of Social Security Administration prior collection policy.

One is that the reversals in the deduction policy are harsh and unwarranted. I have sought data on the breakdown of the classes of cases in which overpayments have occurred. It is common knowledge that one of the most difficult classes involve overpayments to students. The Department of Education has vast experience in the difficulty of collecting overpayments in student loans—that is, overdue repayments of student loans as well as unauthorized payments of basic opportunity grants.

We know that there is a certain amount of irresponsibility on the part of students who leave school or fail to carry the required number of credits or who go back to work. We know that is the case with some women students who marry and may no longer have the same name or have moved to different areas across the country. I don't know the extent to which the Social Security Administration has drawn on the experience of the Department of

Education, whose vigorous collection activities began as early as 1978 with respect to students.

I think we should also note that under the recent legislation which terminates the entitlement of college students, college-age students, to benefits on the basis of their parents' wage records, their number of overpayments should, over the next few years, remain constant and hopefully wash out. Certainly, as long as that exclusion continues, that category is distinctly different from the category of the other two; namely, the disability recipients and the annuity recipients under old-age and survivors insurance.

I have not been able to get any kind of data of that type. I think it is important for this committee to have that kind of a breakdown, because clearly with respect to the former and current recipients in both the aged and the disabled, the administrative as well as staff abilities of the Social Security Administration will enable it to wash these out for most of those who are not entitled to reductions, adjustments, or waivers.

In the written statement that I have submitted, I have suggested five illustrative aspects of the transformation that has occurred in the Social Security Administration's handling of its overpaid beneficiary roles. First I suggest that there should be a clear identification and clear instructions with respect to the differentiation between overpayments to SSI beneficiaries as against using those SSI overpayments to make deductions from insurance benefits, namely, the disability and the old-age and survivors insurance.

I suggest that there is ample knowledge on the part of the regional commissioners of Social Security of the changed policy; the supervisory staff in the regional commissioner's offices, know what their field and district offices are doing, and particularly what their specially created collection units that are in some district offices', are in fact doing.

It is clear in the regional and field structure of the Social Security Administration, that regional commissioners can correct erroneous or excessive activities on the part of the special overpayment collection units that have been created as well as by the ongoing program staffs.

My second point relates to the fact that the Social Security Administration is disregarding mandates that have been in the Social Security Act virtually since its inception, about notifying clients and beneficiaries about their rights to notice and an opportunity for reconsideration and an opportunity for appeal with respect to claims of refunds. The new procedure draws a very close line, in my judgment, to what the rights of the Social Security Administration are, and what the rights of the beneficiaries are, under the reversed policies of frankness and integrity in advising beneficiaries of what their rights are.

My third point relates to the interpretation of fault, where great emphasis is placed upon what the beneficiary knew or should have known or reasonably could be expected to know. I am certain that everyone on the subcommittee and the full committee recognizes the tremendous complexity of the entire social security system.

Even technicians functioning in the system have difficulty maintaining current knowledge and understanding of the various rules that govern procedures at the central office and district office levels. To assume that beneficiaries know or should have known or could reasonably be expected to know what some of these technicalities mean, it seems to me, is a violation of fundamental fair dealing and commonsense.

My fourth point relates to the fact that officers and employees in the social security system should under no circumstances be given awards or have their promotions or bonuses increased on the basis of the dollar amounts that they collect as overpayments or on the basis of the number of overpaid individuals whom they succeed in persuading to make full or partial payments.

This practice is common among private bill collecting agencies; but in a program that is designed to benefit or to relate to mostly aged or handicapped, many of whom are very near poverty levels, and most of whom cannot possibly be as sophisticated in their knowledge of what the social security requirements are, there is too much of an incentive for badgering, for abusive treatments and for unwarranted types of activity in relating to these beneficiaries.

Finally, I share the views that have been expressed by the prior witnesses about very grave implications of using private bill collecting agencies, even for very limited purposes, to secure collections of social security overpayments to insurance beneficiaries. I believe that such a practice is unauthorized under present law, and that even pilot projects to test that type of activity should be prohibited.

I suggest this because of the serious dangers that such use involves infringements of the guarantees of confidentiality, and protections of privacy that have been inherent in our social security programs since their very inception.

I close these oral comments, Mr. Chairman, with a plea for cooperation on the part of the Social Security Administration with those who feel that the new approaches have raised legitimate concern about the legality, the integrity, and the coercion that have occurred under these new overpayment collection procedures, and what it is doing to the population, the population that the Social Security Administration is designed to help, particularly if that population begins to have a sense of distrust of and antagonism to the Social Security Administration. That would change the whole thrust of the program that we have spent almost 40 years to develop.

I thank you, sir.

[The prepared statement follows:]

STATEMENT OF BERNICE L. BERNSTEIN, COUNSEL TO THE STUDY GROUP ON SOCIAL SECURITY

I am Bernice L. Bernstein, counsel to the Study Group on Social Security. I am testifying today at the invitation of the chairman of the subcommittee. The Study Group and I, in my personal capacity, deeply appreciate this opportunity to submit our concerns about the SSA's recent new policies and proposals to increase and improve the collection of overpayments from social security beneficiaries.

The Study Group on Social Security was organized in 1978. It's objective is the dissemination of information, primarily with a focus on public policy but including relevant legal and administrative issues, concerning the interest of families, children, youth, minorities, and all persons affected by our social security programs. It seeks to promote its objectives through monitoring, analyzing, interpreting, and disseminating information about developments in these areas. As a nonprofit activity, most of its work is performed by volunteers, pro bono publico, who have indepth training and experience in these programs.

I will focus my testimony on the policy and legal issues raised by the SSA's recent campaign to collect overpayments, including the proposed pilot project to use private collection agencies for that purpose and the Department's request for legislative authority to offset SSI overpayments against social security insurance benefits. I believe the SSA has over-reached. I submit five comments as illustrations.

(1) Full or parital deductions from social security insurance benefits are currently unlawful as refunds of needs-based SSI overpayments, and should not be authorized under requested amendatory legislation. In my judgment, Congress in section 207 of the Social Security Act, specifically prohibited such deductions when it directed that "The right of any person to any future payment under this title shall not be transferrable or assignable, at law or in equity, * * *" Yet frequent complaints across the nation, I am told, indicate that such refunds have been demanded and collected, either under coercive tactics or by "persuading" title II beneficiaries to "voluntarily" request such deductions. It is unwarranted to permit the withholding of total social security monthly benefits from an overpaid SSI beneficiary without a firm finding that such a beneficiary will not thereby be again rendered needy or without the resources essential for his or her necessary living expenses.

(2) The established policy of the SSA now is immediate withholding of total monthly benefits from overpaid social security beneficiaries if no timely response—30 days—or appeal from the notice of overpayment and demand for refund is received. Routinely, such notices have omitted the requirement in CFR, section 404.502a that "Whenever an initial determination is made that more than the correct amount of payment has been made, notice of the provisions of section 204(b) and 1870(c) of the act regarding waiver of adjustment or recovery shall be sent to the overpaid individual and to any other individual against whom adjustment or recovery of the overpayment is to be effected.[1] I understand that in such cases, also, complaints across the country indicate that this notice has not been given. Section 204(b) of the Act provides that "In any case in which more than the correct amount of payment has been made, there shall be no adjustment of payments to, or recovery by the United States from, any person who is without fault, if such adjustment or recovery would defeat the purpose of this title or would be against equity and good conscience." Section 1870(c) is a comparable provision relating to medicare.

(3) Interpretations of the term "fault" in the above quoted section 204(b) have changed the common sense meaning of that term beyond reasonable limits. Thus, section 404.507 of the social security regulations specifies that in determining fault, all pertinent circumstances, including age, intelligence, education and physical and mental condition are to be considered. But the same section also provides that absence of fault cannot exist if the overpaid individual "knew or should have known" or could have been expected to know" that an increase in his benefit check was in error or that certain required information was material. In the context in which the term is used in section 204(b), I would suggest that the word should carry a connotation of blame or transgression. As our social security system requirements, technicalities, policies and procedures have become increasingly complex, it is particularly unreasonable to base a decision as to "fault" on what a non-technician "knew or should have known" or "could have been expected to know". More realistic criteria and guidelines are needed.

(4) SSA officers' and employees' awards, salaries or promotions should not be based on the dollar amounts or numbers of their overpayment collections. This a common practice in private bill collecting agencies. In public as well as private organizations, such a practice becomes an incentive for badgering, abusing, threatening or coercing debtors, particularly frail, aged, unsophisticated or handicapped, conscientious or frightened persons. Our early experience with efforts to collect overpayments of past due payments from students or former student recipients of student loans or BOG grants demonstrated that employees quickly discovered innovative techniques for "creaming", i.e., separating out the easy and frightened payors and postponing the "hard core cases" for someone else. I would guess that the SSA may be having a comparable experience.

(5) The use of private collection agencies to collect refunds of social security overpayments should be prohibited. In January, the SSA published a notice of its intention so to contract. At that time I submitted on behalf of the Study Group, a memo-

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[1] My access to SSA regulations has been limited to Bar Association law libraries who cannot assure me that their copies are current. If any of my statements concerning social security regulations are in error, I apologize.

randum briefly listing four reasons why such a procedure was contrary to sound public policy as well as law. I attach a copy of that memorandum. Since that time, I understand the SSA has substituted a proposed pilot project in Baltimore and San Diego County for the same purpose. I believe such a pilot project is subject to the same objections. There is too much of a continuing mixture of governmental discretion and decision making inherent in the continuing relationship between the SSA and its overpaid beneficiaries to trust their management and administration to private bill collecting agencies. The use of private collection agencies, moreover, entails serious dangers of infringements of the guarantees of confidentiality and protection of privacy inherent in our SS system since its inception. I recognize that the Privacy Act, the Freedom of Information Act and the numerous exceptions to the social security confidentiality guarantees leave much uncertainty about how much remains, and more importantly, how much the SSA attempts to protect. The fundamental integrity of the guarantees, however, are still pertinent.

In my considered judgment, the SSA's recent new campaign to collect overpayments reflects an excessive zeal to improve the public purse, to the detriment of the population the SS system was designed to serve. No one suggests that public officers and employees should be lax, inefficient, or careless about their obligation to recover overpayments in accordance with the principles and protections enunciated by the Congress. But when the SSA's outstandingly innovative legal and management skills are devoted to being "too sharp", to skirting a fine line between legality, integrity and coercion, it does great damage and incurs distrust and antagonisms on the part of the population the SSA is obligated to serve, particularly those aged and handicapped who are today living with poverty and feelings of jeopardy about their incomes. Everyone would heartily support improved management that is consistent with the basic mandates and purpose of the SS system: for example, improvements in the management and administration of the backlogs of pending, unresolved overpayment cases. Such improvements need not involve a sudden reversal of service commitments and adoption of adversarial or antagonistic approaches. Our country sustains a loss if, beginning in this narrow area of recovering overpayments, the SSA and its present and future beneficiaries become antagonistics rather than cooperators in a public program that should promote the interest of all our people.

Thank you, Mr. Chairman and members of this Subcommittee, for giving me this opportunity and privilege of testifying today.

MEMORANDUM

FEBRUARY 4, 1982.

To: Social Security Privacy Officer, Social Security Administration, 6401 Security Boulevard, Baltimore, MD 21235.

Re: Notice of Social Security Administration intent to establish new routine use of information that it maintains in designated Privacy Act systems of records. (47 F.R. 1025, January 8, 1982).

The above notice advises that the Social Security Administration proposes to *routinely disclose* to "third party contacts (including private collection agencies) under contract with the Social Security Administration information pertaining to an overpaid individual" such as the name, social security number, amount of debt, debt payment history and information relating to the ability to repay (italics supplied.) The term "over-paid individual" means one who has received more than the correct amount as a social security insurance benefit or as a supplemental security income payment. The purpose of such disclosures are to assist the Social Security Administration in collecting such over-payments.

For the reasons set forth below the proposed new routine disclosures: (1) are unnecessary, (2) are for purposes contrary to the over-payment remedies provided in the Social Security Act, (3) will inevitably lead to violations of the confidentiality requirements governing information secured in connection with the administration of the Social Security system and (4) are for purposes that are inherently susceptible to abuses and usurpation of governmental or executive discretion and authorities by private enterprise.

(1) The administrative practice of the Social Security Administration has routinely recovered social security over-payments by deductions from future payments due the over-paid individual, his eligible family and dependents. The number of Social Security over-payments not so recoverable can routinely be handled through existing governmental agencies, including U.S. attorneys. The same remedies exist with respect to Supplementary Security Income recipients. The latter are the aged, disabled and blind poor. The number of such over-paid recipients from whom debts are not so recoverable are predominantly judgment-proof, even against the most aggres-

sive tactics of a private collection agency. In other words, the United States Government through its existing and continuing staff resources, can effectuate as much or more, by way of recoveries, than private collection agencies, without the additional costs that such agencies would require.

(2) The Social Security Act and regulations set forth, in careful detail, rules governing the recoupment of over-payments. The law and regulations (not changed by the Omnibus Budget Reconciliation Act of 1982) expressly provides that no adjustments or recoveries shall be made where the over-paid individual was without fault if the adjustment or recovery would defeat the purposes of the program or would be against equity or good conscience. The investigations and determinations required by these criteria (including available administrative and court review of such determinations) clearly may not be delegated to private collection agencies. Equally clearly, deductions from future payments cannot be assisted by private collection agencies. Does the proposed use of private collection agencies therefore mean that repayments will be sought without governmental decisions that the circumstances precluding adjustments or recoveries do not exist?

(3) Private collection agencies engaged under contracts with the Social Security Administration would be reputable profit-making enterprises. But if such agencies receive, as they presumably must, information that sets forth the name, social security number, amount of over-payment, information relative to the over-paid individual's debt payment history and his or her ability to repay, and available information as to the individual's most recent address, how will the Social Security Administration or any law enforcement agency safe-guard against the collection agency's use of such information for its non-Social Security Administration collection activities? Moreover, collection agencies are often members of clearing-house arrangements for sharing information concerning debtors. If either or both such results occur, widespread violations of the Social Security Act and Privacy Act protections of the confidentiality and privacy of personal information in government records will be inevitable. Notwithstanding the criminal penalties for such violations, modern technology permits access to shared data resources without recording the fact of sharing.

(4) We must remember that our most reputable private collection agencies are profit-making enterprises whose success is measured by the number and amount of their collections. Irrespective of contractual provisions prohibiting threats, abusive or aggressive approaches, a predominantly aged, disabled or poor debtor population is easily coerced, threatened or misled by assertions that a private collection agency is an agent of the United States Government for the purpose of securing a collection. Such a population is unlikely to complain about unduly aggressive or misleading tactics. They are likely to believe assertions that governmental authorities or discretion have been delegated to a private collection agency.

But more importantly than any of the foregoing, the law and regulations governing recoveries of Social Security Administration over-payments do in fact establish that the process of achieving adjustments and recoveries is a governmental function involving discretionary determinations. Contracts with private enterprise to "assist" in the performance of such functions would seem clearly contrary to law as well as sound public policy.

We, therefore, urge that the above notice be withdrawn.

BERNICE L. BERNSTEIN,
Counsel to the Study Group on Social Security.

Chairman PICKLE. I thank both of you ladies for your testimony. Ms. Sweeney, you have made some rather broad, sweeping charges or at least conflicting opinions against how the debt collection program is working, and we will make a copy of your testimony available to the SSA and ask for responses to each one of these charges.

I was concerned that you had stated that there were practically no waivers granted and the Administrator or the Commissioner said earlier waivers were granted in almost 80 percent of the cases.

Ms. SWEENEY. That is what I heard him say. He said 80 percent of the cases in which we can grant waivers, but Social Security is looking at the statute which says, you are required to grant waiver to persons who without fault if it would be against equity and good conscious to collect the overpayment. Social Security Administration is saying everybody is at fault. They don't count those people as part of the group who could possibly be eligible for the waiver.

I am saying their definition of what fault means is wrong, and that they are discouraging people who are entitled to waivers to even go and seek a waiver. And while we have statistics from California, we are getting calls from all over the country. This is not a localized problem, and I would say that everything that is in my statement, while I may have a notice from Tampa, Fla., or one from Massachusetts, is showing up everywhere across the country.

Mr. Harris earlier questioned, well, I believe you had stepped out, Mr. Pickle, Mr. Svahn's testimony on the notice that talks about Congress proposing to charge interest on debts, the one that came from Arlington, Va. We have seen copies of that notice in Montana, in many different parts of the country. John Harris said that Mr. Svahn had misinformed you this morning, that notice was a centrally issued notice and came out of region III in Philadelphia, and came out of training materials which are to be provided to you. So I would suggest at this point, it is SSA who is suspect in the information that they have been providing you.

Chairman PICKLE. We will ask the SSA other questions about your testimony.

I have had a different reaction to the statement this morning. I am glad you made that point.

Also, Ms. Bernstein, it is difficult for us to know what, we are trying to add some input into this problem. We want the debt collection program to be effective. If we don't do that and we ignore these abuses, somewhere in, again, the excessive zeal you have mentioned or the overaggressiveness of the Administration, almost persecuting these people and the level of proper debt collection is what we are trying to arrive at, and I guess these hearings are held for the purpose of trying to draw some kind of a proper line.

We don't want the SSA to be a harsh, mean, overpowering debt collector. It is a judgmental line that we have to try to establish. Where that line will fall, it remains yet to be seen.

I thank you for your testimony, both of you. What you have said is somewhat at variance with what the SSA has said, and we will pursue that further then.

Now, the Chair is going to ask Mr. Edward Densmore and Mr. Richard Kusserow—I know you may be testifying on a different subject. Your entire statements will appear in the record. I thank you for staying through the period to keep you from coming back this afternoon.

Mr. Edward Densmore, Deputy Director of the Human Resources Division. Will you make your statement?

STATEMENT OF EDWARD A. DENSMORE, DEPUTY DIRECTOR, HUMAN RESOURCES DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY RONALD LEE, SUPERVISORY EVALUATOR; AND ANDREW F. KULANKO, GROUP DIRECTOR

Mr. DENSMORE. Thank you, Mr. Chairman. I would like to introduce, on my right, Mr. Ron Lee and Mr. Andrew Kulanko from our Human Resources Division who are working at the Social Security Administration.

Chairman PICKLE. Thank you, and we are glad to have both of you gentlemen at the table.

Mr. DENSMORE. We are happy to be here today to provide our views of the Social Security Administration's recently announced proposal to issue social security cards on tamper-resistant material to new applicants and to persons requesting replacement cards. Our views today remain substantially the same as they were in December 1980 when we reported[1] that issuing social security numbers and cards on tamper-resistant paper would not of itself increase their integrity and prevent misuse because it would not stop people from obtaining them illegally by using false identification documents.

SSA has indicated that issuing a tamper-resistant card would make counterfeiting more difficult and might reduce the cost of issuing replacement cards because the new cards might last longer.

Although issuing a tamper-resistant card might make counterfeiting more difficult, the extent to which the counterfeiting of social security cards would be reduced overall, particularly while the non-tamper-resistant cards are still in use, is unknown.

Even with a tamper-resistant card, most of the misuses occurring today would probably continue to occur. In addition to counterfeiting and tampering, misuse occurs through borrowing, stealing, buying, or selling another person's card. This could continue with a tamper-resistant card. Further, most misuse occurs through improper use of a number, rather than misuse of the card itself. Most entities needing to obtain an individual's social security number do not check the card, or if they do, check it only to be sure that they accurately record the numbers. Persons can still orally provide fictitious numbers and present other identification or false information in seeking to obtain benefits or employment.

As we recommended in our 1980 report, SSA has been providing training to its field personnel so that they can better detect fraudulent documents presented when persons apply for a social security card. This training is being provided in two phases. The first phase is intended to enable SSA personnel to identify false immigration documents. This training is in progress. The second phase is intended to enhance detection of other types of fraudulent identification. Training for the latter is expected to begin in January 1983 and be completed by July 1983. Although SSA has not set a date for beginning to issue the proposed tamper-resistant card, we believe that SSA should not begin issuing the card until SSA personnel are adequately trained to detect fraudulent identification documents.

SSA estimates the additional cost per card of the new tamper-resistant paper will be about 2 to 3 cents. SSA indicated this cost may be offset by the reduced cost of replacing cards that wear out. Whether this would happen is unknown, because SSA does not maintain data on the number of cards that are replaced because they wear out. Of the 6 to 7 million cards replaced each year, many are replaced for reasons other than the card's durability, such as to recognize changes in the person's name due to marriage. Cards are also replaced because they are lost, stolen, discarded, or because the holder just wants to have an extra one.

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[1] "Reissuing Tamper-Resistant Cards Will Not Eliminate Misuse of Social Security Numbers" (HRD-81-20, Dec. 23, 1980).

Although issuing tamper-resistant cards to new applicants and those requesting replacement cards would make counterfeiting more difficult and may not cost much more than issuing the current card, we believe there are some matters which should be considered if there are to be two types of social security cards in use.

First, anyone desiring to have a counterfeit or otherwise fraudulent social security card could obtain and use one as long as the current version is still acceptable. In other words, while it might be more difficult to obtain a counterfeit tamper-resistant card, it would not be necessary to do so as long as one could obtain a counterfeit of the current card. Furthermore, it would take a very long time—almost a lifetime—to phase out the old cards since most of the new cards issued are to those under age 18.

Second, should tamper-resistant cards be introduced, and, for whatever reason, a significant public perception arises that the new card is more desirable than the old, the demand for replacement cards could grow. For example, S. 2222, which passed the Senate and is now under consideration by the House, would require that employers examine social security cards and numbers prior to hiring. Should this bill become law, or any other eventuality arises which would promote the use of the card as such, rather than just the number, for identification purposes, some fraction of the public might perceive the new type card as more desirable. This might particularly be the case among young people—the 36 million people age 18 and under who hold cards—who might believe they would be expected to hold a new card. If such a perception as to the desirability of a new card arises, an increase in requests for replacement cards would increase SSA's administrative burden because SSA would have to request and review required identification documents of all persons seeking replacement cards.

We believe that before SSA's proposal is implemented, the advantages and benefits of the proposal should be clearly demonstrated and weighed against the potential disadvantages and additional costs that will be incurred.

That concludes our statement. We shall be pleased to respond to any questions you or other members of the subcommittee may have.

Chairman PICKLE. I thank you very much, Mr. Densmore, I assume that the chart that has been presented here at the table is not for your reference purposes but for the other group. We will ask you to remain at the witness table, and now we will hear from Mr. Kusserow.

STATEMENT OF RICHARD P. KUSSEROW, INSPECTOR GENERAL, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY LARRY SIMMONS, DIRECTOR, SOCIAL SECURITY AUDIT DIVISION; AND VINCENT MAZZUCA, SUPERVISORY AUDITOR

Mr. KUSSEROW. Mr. Chairman, and members of the subcommittee, with me today is Larry Simmons, who is the Audit Director for the Social Security Audit Division; and to his right, Mr. Mazzuca, supervisory auditor.

We are pleased to present our statement on our audit report. We will submit our audit report in its entirety for the record.

Chairman PICKLE. Thank you. It will be included in the record. [See appendix for report.]

Mr. KUSSEROW. Our audit studied SSA's wage processing activities in 1978 and 1979, the first and second years of annual wage reporting by private sector employers. We tested the procedures for wage reporting implemented in response to Public Law 94-202, which mandated such reporting on an annual basis. The procedures audited were implemented prior to the tenure of the current Commissioner of Social Security.

My formal statement is rather lengthy, and I will submit that for the record and briefly summarize what is in it.

Chairman PICKLE. That would be satisfactory.

Mr. KUSSEROW. The chart reflects the areas where we conducted our review, the four areas of SSA's annual wage reporting processing system for employers submitting data on magnetic tape: the receipt, approval and control of employer authorizations to report on magnetic tape; receipt and control of magnetic tape; automated processing of the annual wage reports; and, the clerical balancing and reconciliation of total wage amounts reported by employers on magnetic tape to the total wage amounts processed by SSA. Some background information will help you better understand the annual wage reporting process.

Eligibility for benefits under social security is determined by a person's working for specific minimum periods of time in employment covered by the Federal Insurance Contributions Act—FICA. The amount of benefits paid depends, in part, on the amount of covered earnings accumulated. For this reason, SSA maintains work history and amounts of earnings for all covered employees.

Prior to 1978, employers subject to social security taxes were required to prepare quarterly wage reports for IRS, listing each employee by name and social security number, and showing the total wages and taxes withheld for each employee.

Preparation and filing of the quarterly reports involved considerable effort and expense on the part of employers, particularly in the case of small- and medium-sized companies which did not have the advantage of computerized payroll systems. The cost involved in preparing quarterly tax reports was highlighted by the U.S. Senate Select Committee on Small Business in a report issued on April 17, 1973. The select committee indicated that the annual cost to small employers to submit quarterly Federal tax returns might total as much as $235 million.

To reduce the tax reporting burden of the Nation's employers, Congress, on January 2, 1976 enacted Public Law 94-202. Section 8(b) of Public Law 202 authorized the combined reporting of detailed Federal and FICA tax information and employee wage data into the new consolidated annual report.

For tax year 1978, the first year of annual wage reporting, about 30,000 employers reported wage data for about 49 million wage earners on magnetic tape, and 5.6 million employers reported wages for about 137 million wage earners on paper—Treasury forms W-2. For tax year 1979, about 127,000 employers reported wages for more than 52 million wage earners on tape, while 5.7 million employers filed paper reports for wages for over 141 million wage earners.

The purpose of our review was to determine how well SSA carried out its administrative and operational responsibilities for accounting, processing, posting, and reporting wage and tax data received from employers on magnetic tape for tax years 1978 and 1979.

For policy and procedural matters, we included current operations in order to identify significant problems in the four areas of SSA's annual wage processing system. That is what you see in the charts.

I have also additional charts attached to my prepared testimony which includes all of our findings and recommendations.

That, Mr. Chairman, concludes my oral presentation at this time. I would be prepared to answer questions you may have.

[The prepared statement follows:]

Statement of Richard P. Kusserow, Inspector General, Department of Health and Human Services

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, WE ARE PLEASED TO APPEAR TODAY TO DISCUSS OUR AUDIT REPORT ON SSA'S PROCESSING OF EMPLOYEE WAGE DATA REPORTED ON MAGNETIC TAPE BY EMPLOYERS. BEFORE WE BEGIN, WITH YOUR PERMISSION, WE WOULD LIKE TO SUBMIT OUR AUDIT REPORT FOR THE RECORD IN ITS ENTIRETY.

OUR AUDIT STUDIED SSA'S WAGE PROCESSING ACTIVITIES IN 1978 AND 1979, THE FIRST AND SECOND YEARS OF ANNUAL WAGE REPORTING BY PRIVATE SECTOR EMPLOYERS. WE TESTED THE PROCEDURES FOR WAGE REPORTING IMPLEMENTED IN RESPONSE TO PUBLIC LAW 94-202, WHICH MANDATED SUCH REPORTING ON AN ANNUAL BASIS. THE PROCEDURES AUDITED WERE IMPLEMENTED PRIOR TO THE TENURE OF THE CURRENT COMMISSIONER OF SOCIAL SECURITY.

OUR TESTIMONY, WHICH I WILL SUMMARIZE, COVERS THE FOUR AREAS OF SSA'S ANNUAL WAGE REPORTING PROCESSING SYSTEM FOR EMPLOYERS SUBMITTING DATA ON MAGNETIC TAPE - THE RECEIPT, APPROVAL AND CONTROL OF EMPLOYER AUTHORIZATION TO REPORT ON MAGNETIC TAPE; RECEIPT AND CONTROL OF MAGNETIC TAPE; AUTOMATED PROCESSING OF THE ANNUAL WAGE REPORTS; AND, THE CLERICAL BALANCING AND RECONCILIATION OF TOTAL WAGE AMOUNTS REPORTED BY EMPLOYERS ON MAGNETIC TAPE TO THE TOTAL WAGE AMOUNTS PROCESSED BY SSA. SOME BACKGROUND INFORMATION WILL HELP YOU BETTER UNDERSTAND THE ANNUAL WAGE REPORTING PROCESS.

BACKGROUND

ELIGIBILITY FOR BENEFITS UNDER SOCIAL SECURITY IS DETERMINED BY A PERSON'S WORKING FOR SPECIFIC MINIMUM PERIODS OF TIME IN EMPLOYMENT COVERED BY THE FEDERAL INCOME CONTRIBUTION ACT (FICA). THE AMOUNT OF BENEFITS PAID DEPENDS, IN PART, ON THE AMOUNT OF COVERED EARNINGS ACCUMULATED. FOR THIS REASON, SSA MAINTAINS WORK HISTORY AND AMOUNTS OF EARNINGS FOR ALL COVERED EMPLOYEES.

PRIOR TO 1978, EMPLOYERS SUBJECT TO SOCIAL SECURITY TAXES WERE REQUIRED TO PREPARE QUARTERLY WAGE REPORTS FOR IRS, LISTING EACH EMPLOYEE BY NAME AND SOCIAL SECURITY NUMBER, AND SHOWING THE TOTAL WAGES AND TAXES WITHHELD FOR EACH EMPLOYEE.

PREPARATION AND FILING OF THE QUARTERLY REPORTS INVOLVED CONSIDERABLE EFFORT AND EXPENSE ON THE PART OF EMPLOYERS, PARTICULARLY IN THE CASE OF SMALL AND MEDIUM SIZED COMPANIES WHICH DID NOT HAVE THE ADVANTAGE OF COMPUTERIZED PAYROLL SYSTEMS. THE COST INVOLVED IN PREPARING QUARTERLY TAX REPORTS WAS HIGHLIGHTED BY THE U.S. SENATE SELECT COMMITTEE ON SMALL BUSINESS IN A REPORT ISSUED ON APRIL 17, 1973. THE SELECT COMMITTEE INDICATED THAT THE ANNUAL COST TO SMALL EMPLOYERS TO SUBMIT QUARTERLY FEDERAL TAX RETURNS MIGHT TOTAL AS MUCH AS $235 MILLION.

To reduce the tax reporting burden of the Nation's employers, Congress, on January 2, 1976, enacted Public Law 94-202. Section 8(b) of PL-202 authorized the combined reporting of detailed Federal and FICA tax information and employee wage data into one consolidated annual report.

For tax year 1978 (the first year of annual wage reporting), about 30,000 employers reported wage data for about 49 million wage earners on magnetic tape, and 5.6 million employers reported wages for about 137 million wage earners on paper - Treasury Forms W-2. For tax year 1979, about 127,000 employers reported wages for more than 52 million wage earners on tape, while 5.7 million employers filed paper reports for wages for over 141 million wage earners.

The purpose of our review was to determine how well SSA carried out its administrative and operational responsibilities for accounting, processing, posting and reporting wage and tax data received from employers on magnetic tape for tax years 1978 and 1979. For policy and procedural matters, we included current operations.

RESULTS OF AUDIT

Our audit identified significant problems in the four areas of SSA's system for processing wage data.

Receipt, Approval and Control of Authorization Requests From Reporting Employers

Employers that want to report annual wage data to SSA on magnetic tape must first apply for and obtain advance approval from SSA to do so. Information contained in their request (i.e. "Authorization Request" form) enables SSA to determine whether the prospective reporting employers' ADP configuration and tape characteristics can produce tapes that may be processed on SSA's computers. Upon acceptance by SSA, the information from this request is input into their "Magnetic Media Reporting Data Base" (data base) where it is later extracted to prepare ADP input cards which will allow SSA's computers to accept the reporting employer's tapes.

Our review found that this data base does not contain all of the information needed to make the necessary precise judgments of whether SSA's computers can, in fact, accept these tapes. Also, the data base is not promptly or consistently updated as new information becomes available on the reporter's ADP configuration, tape characteristics, and/or ability or willingness to report as authorized. This situation was caused by the following:

-- Some employers did not always fill out the authorization requests completely or accurately. Nevertheless, for TY 1978 and 1979, the requests were being accepted by

SSA. CERTAIN SSA STAFF COMMENTED TO US THAT SSA DURING THIS TIME WAS MORE INTERESTED IN PROMOTING TAPE REPORTING AND MAXIMIZING EMPLOYER PARTICIPATION THAN IN ASSURING THAT THE AUTHORIZATION REQUESTS BEING RECEIVED WERE ACCURATE AND COMPLETE. FOR TAX YEAR 1980, EMPLOYERS CONTINUED TO SUBMIT INACCURATE AND INCOMPLETE AUTHORIZATION REQUESTS. WHILE SUCH REQUESTS ARE NOW BEING REVIEWED, SSA IS NOT ALWAYS ABLE TO DETERMINE WHETHER ITS ADP SYSTEM CAN ACCEPT THESE TAPES -- AS THE REVIEWERS ARE NOT FAMILIAR WITH ALL THE RECORDING CODES EMPLOYERS MAY USE. UNDER CURRENT SSA PROCEDURE, THE STAFF REVIEWING THESE AUTHORIZATION REQUESTS MAY NOT CONTACT THE PROSPECTIVE REPORTING EMPLOYER DIRECTLY BUT MUST CHANNEL ANY QUERIES THROUGH AN APPROPRIATE SSA REGIONAL OFFICE.

-- THE AUTHORIZATION REQUEST FORM DOES NOT CALL FOR ALL OF THE DATA NEEDED TO PERMIT SSA REVIEWING STAFF TO READILY DETERMINE WHETHER THE EMPLOYER'S TAPES CAN BE ACCEPTED BY SSA'S COMPUTERS. MODIFYING THIS FORM TO INCLUDE CERTAIN ADDITIONAL DATA ELEMENTS WOULD AVOID THE NEED FOR COSTLY, TIME CONSUMING TESTING.

-- THERE IS NO ONE OFFICE WITHIN SSA RESPONSIBLE FOR UPDATING AND MONITORING THE DATA BASES MAINTAINED ON EMPLOYERS AUTHORIZED TO REPORT ANNUAL WAGE DATA ON

MAGNETIC TAPE -- TOGETHER WITH THE CHARACTERISTICS OF THE ADP TAPE THEY PLANNED TO SUBMIT. WE BELIEVE IF SUCH AN ASSIGNMENT WERE MADE THAT THE POSSIBILITY FOR CONTINUED ERRORS AND OMISSIONS REMAINING IN THE DATA BASE COULD BE MINIMIZED. AS AN EXAMPLE OF THE PROBLEMS NOTED: FROM TIME-TO-TIME, TAPES ARE RECEIVED FROM REPORTING EMPLOYERS WHICH POSSESS CHARACTERISTICS DIFFERENT FROM THOSE DESCRIBED IN THE ORIGINAL REQUEST FOR AUTHORIZATION. IN ORDER TO PROCESS THESE TAPES, SSA STAFF HAVE HAD TO DETERMINE THEIR PARTICULAR CHARACTERISTICS; BUT THE DATA BASE WAS GENERALLY NOT CORRECTED TO REFLECT THIS INFORMATION.

-- SSA'S SYSTEM OF UPDATING THE DATA BASE IS TIME-CONSUMING AND COSTLY AND COULD READILY BE IMPROVED BY THE ADDITION OF CERTAIN CAPABILITIES (ON-LINE ACCESS TO A CRT TERMINAL SYSTEM).

-- MICROFICHE COPIES OF SUBMITTED WAGE DATA ARE PREPARED BY SSA FOR RETURN TO REPORTING EMPLOYERS, WHETHER OR NOT THEY ARE REQUESTED BY THE EMPLOYERS. SOME OF THIS MICROFICHE HAS NOT BEEN SENT HOWEVER, AS THERE IS NO ADDRESS AVAILABLE AND IT IS BEING BOXED AND STORED BY SSA.

RECEIPT AND CONTROL OF MAGNETIC TAPE

SSA WAS NOT PREPARED TO FULLY ACCEPT, MANAGE, AND CONTROL THE APPROXIMATELY 5,000 REELS OF MAGNETIC TAPE RECEIVED FOR 1978, THE INITIAL ANNUAL REPORTING PERIOD. THE FOLLOWING CONDITIONS EXISTED THEN, AND CONTINUE TO EXIST TODAY:

FIRST, SSA'S TAPE LIBRARY RECEIPT SYSTEM DID NOT ACCOUNT FOR THE NUMBER OF TAPE REELS RECEIVED, OR FOR THE NUMBER OF INDIVIDUAL, SEPARATE, AND DISTINCT EMPLOYERS WHO SUBMITTED EMPLOYEE WAGE INFORMATION ON MAGNETIC TAPE. FURTHER THERE WAS NO EFFECTIVE CONTROL OVER MULTIPLE REELS OF TAPE, WHEN EACH REEL REPRESENTED A SELF-CONTAINED FILE (COMPLETE IN ITSELF) AND NOT PART OF A LARGE MULTI-REEL FILE.

THUS, SSA CAN NOT ACCURATELY DETERMINE (I) WHAT EMPLOYER TAPES HAD BEEN RECEIVED, (II) WHETHER EMPLOYERS AUTHORIZED TO SUBMIT TAPES ACTUALLY DID SO, OR (III) WHETHER TAPES THAT WERE RECEIVED ACTUALLY ENTERED THE DATA PROCESSING SYSTEM. FURTHER, DATA FROM SSA'S TAPE CONTROL SYSTEM MAKES IT APPEAR THAT SOME TAPES HAD NOT BEEN RECEIVED, WHEN IN FACT THEY HAVE BEEN RECEIVED AND PROCESSED.

IN OUR VIEW, THESE CONDITIONS EXIST DUE TO:

- -- DEFICIENCIES IN THE DESIGN AND IMPLEMENTATION OF SSA'S TAPE LIBRARY CONTROL NUMBERING SYSTEM.

- -- SSA ACCEPTING TAPES FROM EMPLOYERS WHO HAD NOT BEEN AUTHORIZED TO SUBMIT WAGE DATA INFORMATION IN TAPE FORM. ALSO, SSA ACCEPTED SOME TAPES WHICH LACKED EXTERNAL IDENTIFIERS (AS TO TECHNICAL CHARACTERISTICS). THESE TAPES REQUIRED CONSIDERABLE ADDITIONAL WORK TO PROCESS.

- -- PROBLEMS EXISTING WITH THE COMPUTER PROGRAM USED TO TRACE THE MOVEMENT OF WAGE DATA THROUGH THE "ANNUAL WAGE REPORT PROCESS".

IN ADDITION, WE BELIEVE VERY SUBSTANTIAL BENEFITS COULD BE REALIZED IF THE RESPONSIBILITY FOR ACCEPTING ANNUAL WAGE REPORT TAPES, DETERMINING THE AUTHORIZATION STATUS OF EMPLOYERS, AND SENDING THE TAPES TO PROCESSING COULD BE TRANSFERRED TO SSA'S OFFICE OF CENTRAL OPERATIONS.

AUTOMATED PROCESSING OF ANNUAL WAGE REPORTS

TO ENSURE THAT WAGE REPORTS WOULD BE PROCESSED QUICKLY AND ACCURATELY, SSA DEVELOPED A SERIES OF COMPUTER PROGRAMS THAT WERE DESIGNED TO EDIT FOR DATA INCONSISTENCIES, COMPARE DETAIL DATA TO SUMMARY DATA, INCORPORATE CLERICAL ADJUSTMENTS, AND PREPARE VARIOUS OUTPUTS. BUT, PROGRAMMING AND OTHER DIFFICULTIES FRUSTRATED THESE ATTEMPTS TO PROCESS WAGE REPORTS QUICKLY AND ACCURATELY. IN AN ATTEMPT TO MEET PRODUCTION GOALS AND TO HALT THE INCREASING BACKLOG OF WAGE

REPORTS REJECTED FROM PROCESSING, SSA SUSPENDED THE DUPLICATE DETECTION FUNCTION BUILT INTO ITS PROCESSING SYSTEM. THIS ACTION, THOUGH, CAUSED SOME 1.4 MILLION DUPLICATE WAGE POSTINGS (TOTALING $8.1 BILLION) FOR TY 1978 AND 688,000 DUPLICATE POSTINGS (TOTALING $3.6 BILLION) FOR TY 1979. FACTORS CAUSING THESE DELAYS AND OTHER PROBLEMS, IN OUR OPINION, WERE THAT:

-- SSA ACCEPTED TY 1978 AND 1979 TAPES THAT WERE EITHER IMPROPERLY FORMATTED OR CODED. PROGRAMMERS SPENT UP TO NINE MONTHS ON SOME OF THESE PROBLEM TAPES -- EXPERIMENTING, TESTING, AND DEVELOPING SPECIALIZED COMPUTER PROGRAMS TO REARRANGE DATA FORMATS, BYPASS MISSING OR UNREADABLE DATA, SEPARATE DATA RECORDS, AND TO OTHERWISE COMPENSATE FOR VARIOUS INCONSISTENCIES OR INCOMPATABILITIES.

-- THE COMPUTER COMPLEX USED BY SSA TO PROCESS WAGE DATA DID NOT HAVE THE CAPABILITY TO HANDLE COMPUTER TAPES RECORDED BY EMPLOYER REPORTERS AT "HIGH DENSITIES". (FOR TY 1979, NEARLY 1,000 OF THESE TAPES WERE RECEIVED BY SSA.) TAPES RECORDED FOR HIGH DENSITIES HAVE HAD TO PASS THROUGH A SERIES OF LENGTHY, REDUNDANT, AND TIME-CONSUMING OPERATIONS TO BE PROCESSED.

-- FOR TY 1978, THE COMPUTER PROGRAM USED FOR THE FINAL BALANCING OPERATIONS PHASE OF PROCESSING THE ANNUAL WAGE REPORTS WAS FLAWED IN CERTAIN ASPECTS. THIS

RESULTED IN A NUMBER OF SERIOUS OUTCOMES. FOR EXAMPLE, CLERICAL PERSONNEL NEEDED TO REPEATEDLY REINPUT CORRECTIONS, REBALANCE DATA, AND SO ON. THIS SLOWED THE OVERALL PROCESSING TO A POINT WHERE THERE WAS A BACKLOG OF SEVEN MILLION ITEMS AWAITING REVIEW AS OF AUGUST 1979. IN JUNE AND OCTOBER 1979, SSA REWROTE THIS PROGRAM, BUT THE NEW PROGRAM(S) WERE NOT DOCUMENTED.

-- THE COMPUTER PROGRAM USED TO TRACK AND CONTROL THE PROCESSING OF WAGE REPORTS DID NOT GENERATE ACCURATE STATUS REPORTS AND WAS NOT ALWAYS UPDATED TO REFLECT THE RECEIPT OF WAGE REPORTS.

CLERICAL BALANCING AND RECONCILIATION OPERATIONS

SSA WAS NOT ADEQUATELY PREPARED TO ACCEPT THE RESPONSIBILITY OF BALANCING, RECONCILING, AND CORRECTING ERRORS IN WAGE DATA RECEIVED FOR TY 1978. INVOLVED SSA COMPONENTS ENCROACHED ON EACH OTHERS FUNCTIONS AND RESPONSIBILITIES. OPERATING INSTRUCTIONS WERE VAGUE. POLICY MATTERS WERE ADDRESSED ON AN AD HOC BASIS FOR AN EXTENDED PERIOD OF TIME.

SSA HAS TAKEN ACTION TO CORRECT AND IMPROVE THE CONDITIONS CAUSING THESE PROBLEMS AND THE RESULTANT ENORMOUS WORKLOAD BUILDUPS. IN LATE 1979, FOR EXAMPLE, WRITTEN PROCEDURES WERE DEVELOPED FOR THE DAY-TO-DAY USE OF CLERICAL PERSONNEL. ALSO, IN AUGUST 1980 A TASK FORCE WAS FORMED TO WORK OUT

PROBLEMS ASSOCIATED WITH 9.8 MILLION WAGE "ITEMS" NOT YET PROCESSED, ALTHOUGH THEY RELATED TO TY 1978 SUBMISSIONS.

WHILE THE FOLLOWING CONDITIONS PRINCIPALLY RELATE TO THIS FINAL PHASE OF THE ANNUAL WAGE REPORTING PROCESS, SOME ALSO IMPACT ON THE ENTIRE SSA PROCESSES FOR HANDLING THESE REPORTS. SOME OF THESE CONDITIONS HAVE BEEN CORRECTED -- OTHERS, THOUGH, STILL REMAIN TROUBLESOME:

-- NOT ALL OF THE UNPROCESSED TY 1978 WAGE ITEMS WERE REVIEWED BY THE "AUGUST 1980 TASK FORCE". WE DISAGREE WITH THE VARIOUS MANAGEMENT DECISIONS MADE TO EXCLUDE THESE ITEMS FROM REVIEW. ALSO, AN ADDITIONAL 400,000 ITEMS WERE AWAITING REVIEW/CORRECTION AT THE TIME OF OUR FIELD WORK.

-- BECAUSE OF VARIOUS SYSTEM OR CLERICAL ERRORS, SOME TAPES CONTAINING ANNUAL WAGE DATA FOR THOUSANDS OF EMPLOYEES WERE INADVERTENTLY NOT PROCESSED.

-- SYSTEM PROBLEMS, MISUNDERSTANDINGS, AND CLERICAL ERRORS CONTINUED TO PLAGUE THE PROCESSING OF ANNUAL WAGE REPORTS THROUGH THIS LAST PHASE OF SSA'S PROCESSING SYSTEM.

-- SUBSTANTIAL DIFFERENCES AND PROBLEMS CONTINUE TO EXIST CONCERNING INFORMATION SSA FURNISHES THE INTERNAL

Revenue Service (IRS) for use in tax administration and enforcement programs. (After the annual wage reports have processed through the final balancing operations, SSA provides IRS with magnetic tape files of wage and tax data. These files include information on (i) amounts reported by employers, (ii) amounts generated by SSA for balancing purposes, and (iii) records of discrepancies for all reports received and processed by SSA and turned over to IRS for reconciliation. To facilitate IRS's research, SSA also furnishes facsimiles of all paper and magnetic media documents processed.)

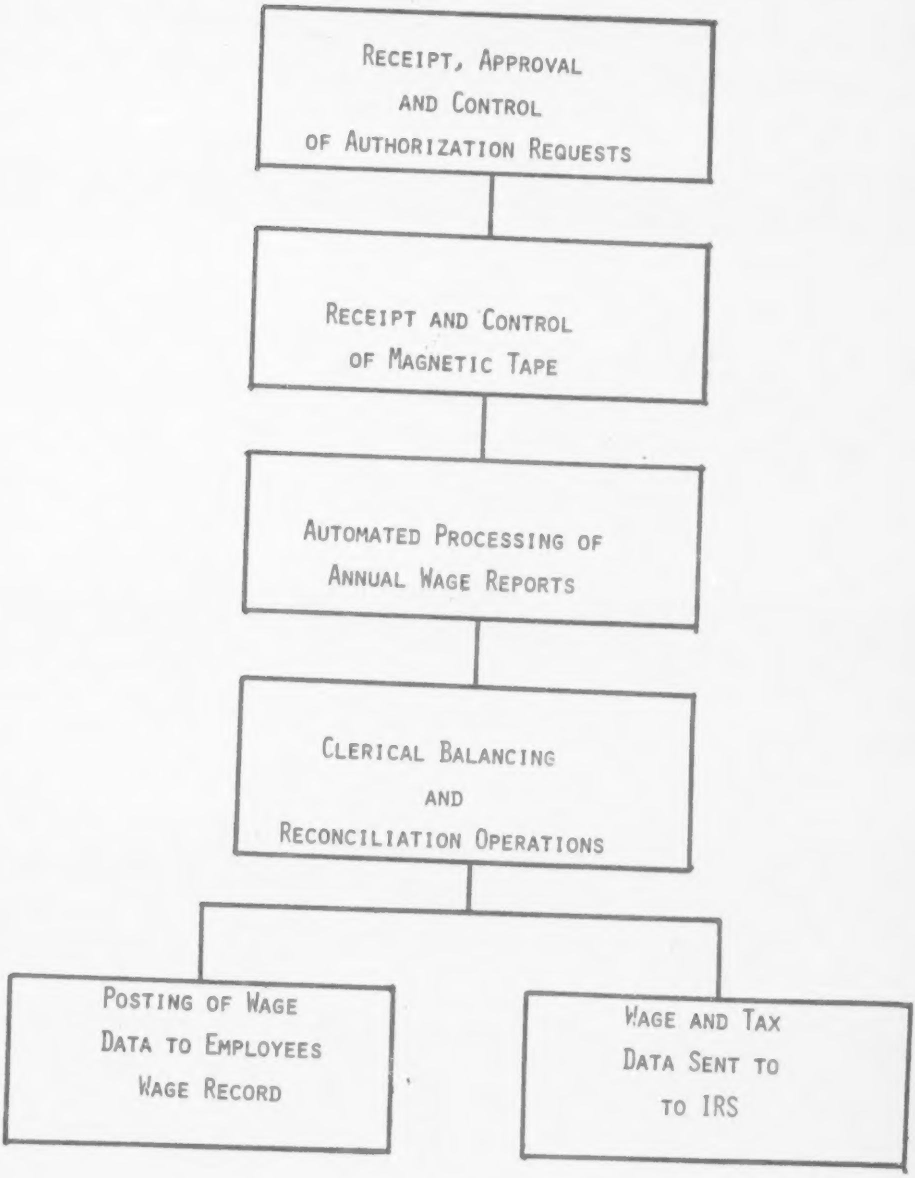
Many of the problems encountered by SSA can be attributed to the enormous effort involved in making major computer system changes. Others are due, we believe, to SSA's increased efforts to persuade employers to report annual wage data on magnetic media without first establishing many of the ground rules under which this operation would be carried out. Reporting employers made errors in the data they reported, partially as a result of the extensive tape format modifications that were necessary.

While SSA had taken a number of corrective actions, more needs to be done to preclude recurrence and to clear up backlogs of adjustments needed. Our report makes eleven recommendations dealing with the need for SSA to take action to (i) assure that all computer rejected or unprocessed wage

REPORTS ARE PROCESSED TO COMPLETION, (II) REVIEW AND CORRECT EMPLOYEE EARNINGS RECORDS WHERE NECESSARY, AND (III) CLEAR UP BACKLOGS OF ERRORS AND NEEDED ADJUSTMENTS. SSA GENERALLY CONCURRED WITH THESE RECOMMENDATIONS.

THERE WERE MANY OTHER AREAS WHERE IMPROVEMENTS COULD BE MADE TO MAKE THE ANNUAL WAGE REPORTING PROCESS MORE MANAGEABLE: AUTOMATING CERTAIN CURRENT MANUAL PROCESSES --ENHANCING CERTAIN FRONT-END CONTROLS; AND BY -- BETTER DELINEATING ORGANIZATIONAL RESPONSIBILITIES. SSA GENERALLY DISAGREED WITH OUR SIXTY RECOMMENDATIONS CONCERNING THESE POINTS.

ANNUAL WAGE REPORTING PROCESS


Receipt, Approval and Control of Authorization Requests
Receipt and Control of Magnetic Tape
Automated Processing of Annual Wage Reports
Clerical Balancing and Reconciliation Operations
Posting of Wage Data to Employees Wage Record
Wage and Tax Data Sent to to IRS

AUTHORIZATION TO REPORT ON TAPE

PURPOSE OF AUTHORIZATION - TO PROVIDE SSA WITH ADMINISTRATIVE AND TECHNICAL DATA TO DETERMINE IF EMPLOYERS' TAPE CAN BE PROCESSED BY SSA'S COMPUTERS AND TO RETURN TAPES TO THE EMPLOYERS.

- AUTHORIZATION REQUEST RECEIVED FROM EMPLOYERS.
- REVIEWED FOR ACCURACY AND COMPLETENESS.
- INFORMATION RECORDED ON DATA BASE.
- COMPUTER INPUT/CONTROL CARDS PREPARED.

FINDINGS

- DATA BASE UNRELIABLE - INACCURATE AND INCOMPLETE.
- DATA BASE NOT PROMPTLY AND CONSISTENTLY UPDATED TO REFLECT EMPLOYER CHANGES - NO ONE SSA OFFICE RESPONSIBLE FOR UPDATE.
- DATA BASE CANNOT BE USED AS EFFECTIVE FRONT END CONTROL - ON TAPE RATHER THAN DISC.
- NOT ALL EMPLOYERS SUBMIT AUTHORIZATION REQUESTS - 623 DID NOT.
- REQUESTS RECEIVED NOT ALWAYS COMPLETELY OR ACCURATELY PREPARED - NEVERTHELESS APPROVED BY SSA.
- AUTHORIZATION REQUEST FORM INSUFFICIENT - TYPE OF LABEL, RECORDING CODE AND OTHER DATA MISSING.
- SSA GAMBLES THAT TAPES CAN BE PROCESSED - MORE THAN HALF OF TAPES RECEIVED FROM 30,000 EMPLOYERS REJECTED.
- REJECTED TAPES NOT RETURNED FOR CORRECTION - SSA SPENT MONTHS TESTING/EXPERIMENTING TO GET TAPES TO PROCESS.

- Employers received microfilm and microfiche and/or paper copies of wage data - unnecessary and costly to Government.

Summary Recommendations

- Office of Central Operations update and keep data base current.
- Data base be maintained on-line with query and update capabilities.
- Require employers to submit complete and accurate authorization requests. Also, require more data on request form.
- Authorization requests not be arbitrarily approved.
- SSA discontinue sending microfilm, microfiche and/or paper wage data to employers.

RECEIPT AND CONTROL OF MAGNETIC TAPE

FUNCTION - ACCEPT, MANAGE, AND CONTROL MAGNETIC TAPE RECEIVED FROM EMPLOYERS - APPROXIMATELY 5,000 REELS OF TAPE RECEIVED IN 1978.

FINDINGS

- NO ACCOUNTABILITY FOR NUMBER OF TAPE REELS RECEIVED OR ASSURANCE THAT TAPE RECEIVED ENTERED PROCESSING.
- UNAUTHORIZED EMPLOYER TAPES ACCEPTED - TIME CONSUMING AND COSTLY TO PROCESS.
- NO IDENTITY OF INDIVIDUAL EMPLOYERS REPORTING WAGE DATA ON TAPE - NOT SURE ALL EMPLOYERS AUTHORIZED TO SUBMIT TAPE DID SO.
- NO CONTROL OF MULTIPLE REELS OF TAPE REPRESENTING ONE OR MORE EMPLOYERS - SYSTEM AWAITED EMPLOYER TAPE WHEN TAPE ALREADY PROCESSED.
- PERMANENT IDENTIFICATION NUMBERS WERE NOT ASSIGNED TO EMPLOYERS - DIFFICULT AND TIME CONSUMING TO KEEP TRACK OF EMPLOYERS.

RECOMMENDATIONS

- MODIFY PROCESSING SYSTEM - ACCOUNT FOR NUMBER OF TAPE REELS RECEIVED, PROCESSED AND RETURNED TO EMPLOYERS; IDENTIFY EMPLOYERS REPORTING WAGE DATA ON TAPE.
- SSA'S OFFICE OF CENTRAL OPERATIONS BE RESPONSIBLE FOR CONTROL AND ACCOUNTABILITY OF TAPES RECEIVED.

- EMPLOYERS BE CONTACTED BY OFFICE OF CENTRAL OPERATIONS RE DISCREPANT TAPES OR FOR TAPES RECEIVED FROM UNAUTHORIZED EMPLOYERS.
- PERMANENT IDENTIFICATION NUMBERS BE ASSIGNED TO EMPLOYERS SUBMITTING WAGE DATA ON TAPE.

AUTOMATED PROCESSING ANNUAL WAGE REPORTS

FUNCTIONS

- COMPUTER PROCESSING OF TAPE DATA
- EDITS FOR DATA INCONSISTENCIES/ERRORS
- COMPARE DETAIL DATA TO SUMMARY DATA
- INCORPORATE CLERICAL ADJUSTMENTS
- PREPARE OUTPUTS AFTER FINAL BALANCING
- PROVIDE PROCESSED EARNINGS FOR POSTING TO SER

FINDINGS

- MANY TAPES ACCEPTED WERE IMPROPERLY FORMATTED/CODED
- HALF OF TAPES REJECTED FROM INITIAL PROCESSING
- PROGRAMMERS SPENT MONTHS TESTING PROBLEM TAPES
- TINKERING CAUSED RECONCILIATION PROBLEMS - DATA SKIPPED, LOST
- AWR COMPUTER COMPLEX NOT CAPABLE OF PROCESSING HIGH DENSITY TAPES - SPECIAL PROBLEMS AROSE
- BACKLOGS OF UNPROCESSED TAPES GREW
- FLAWED PROGRAMS USED IN FINAL BALANCING
- PROGRAM USED TO TRACK/CONTROL TAPES NOT UPDATED AND GENERATED INACCURATE STATUS REPORTS
- TO CLEAR BACKLOGS, DUPLICATE EDITS SUSPENDED
- SUSPENSION CAUSED DUPLICATE WAGE POSTINGS TO EARNING RECORDS - $8.1 BILLION (1978); $3.6 BILLION (1979)
- THREE EMPLOYER TAPES FOUND UNPROCESSED - SHOWN AS COMPLETED BY CONTROL PROGRAM
- FIVE OTHER EMPLOYER TAPES FOUND IN TAPE LIBRARY - SHOWN AS UNRECEIVED ON CONTROL

RECOMMENDATIONS

- DOCUMENT ACTIONS TO RESOLVE PROBLEMS
- DISCONTINUE SKIPPING READ ERRORS TO FORCE PROCESSING
- STOP EXTENSIVE TINKERING WITH PROBLEM TAPES - RETURN TO EMPLOYERS FOR ADJUSTMENT/RETURN
- DEVELOP WRITTEN OPERATING INSTRUCTIONS/PROCEDURES
- PUT 6250 BPI TAPE DRIVES IN AWR COMPLEX
- STOP SUSPENSION OF DUPLICATE DETECTION EDITS
- REVIEW POTENTIAL DUPLICATE POSTING IN EARNINGS RECORD; REVERSE ACTUAL DUPLICATE ENTRIES
- HAVE CONTROL PROGRAMS PROVIDE MORE STATUS/WORKLOAD DATA TO PINPOINT PROBLEMS
- PROCESS 8 EMPLOYER TAPES FOUND UNPROCESSED

CLERICAL BALANCING AND RECONCILIATION OPERATIONS

FUNCTION - MANUALLY BALANCE, RECONCILE, AND CORRECT ERRORS IN WAGE DATA.

FINDINGS

- OPERATIONS INADEQUATELY PLANNED AND POORLY ADMINISTERED.
- RESPONSIBILITIES AND AUTHORITY OF SSA COMPONENTS NOT CLEARLY DELINEATED OR DEFINED.
- NO WRITTEN OPERATING PROCEDURES.
- INSTRUCTION VERBAL, VAGUE, CONFLICTING AND CONSTANTLY CHANGING.
- CLERICAL PERSONNEL CONFUSED, FRUSTRATED, DID NOT KNOW HOW TO RESOLVE PROBLEMS.
- WORK STOPPED IN 1/80 ON BACKLOG OF 9.8 MILLION UNPROCESSED AND UNPROCESSABLE 1978 WAGE ITEMS.
- TASK FORCE CLEARED ALL BUT 3.9 MILLION ITEMS ($30 BILLION) BY 6/81.
- NO CONTROL OVER TAPES RETURNED TO EMPLOYERS FOR CORRECTION.
- IN JUNE 1981, 38 REELS OF 1978 WAGE DATA RETURNED BY EMPLOYERS WERE NOT UNDER CONTROL.
- TWO REELS OF TAPE FOR 1978 WAGES FOR 1,716 EMPLOYEES RETURNED TO EMPLOYER FOR CORRECTIONS - NO FOLLOW-UP ON NON-RECEIPT OF CORRECTED TAPE.
- TAPE FILE FOR 5,104 EMPLOYEES FOUND IN TAPE VAULT UNPROCESSED.
- SSA CENTRAL OFFICE PERSONNEL NOT ALLOWED TO CONTACT EMPLOYER TO RESOLVE PROBLEMS - MUST GO THROUGH REGIONAL OFFICE.

- OUT-OF-BALANCE WAGE REPORTS FORCED PROCESSED - DIFFERENCE INTO MILLIONS OF DOLLARS.
- NO DOCUMENTATION RE EMPLOYER CONTACT OR EMPLOYER RESPONSE.
- REQUIRED EMPLOYER'S WAGE DATA TRANSMITTAL DOCUMENTS NEEDED FOR RECONCILIATION NOT RECEIVED FOR 149 OF 566 SAMPLED ITEMS.
- BALANCED WAGE REPORTS CHANGED TO AGREE WITH TRANSMITTAL DOCUMENT THUS CREATING OUT-OF-BALANCE CONDITION.
- SSA NOT REQUIRING EMPLOYERS TO CERTIFY ACCURACY OF TRANSMITTAL DOCUMENTS.
- CLERICAL PERSONNEL MUST MANUALLY RECONCILE ALL WAGE REPORTS TO TRANSMITTAL DOCUMENTS - TIME CONSUMING, DELAYS PROCESSING.
- NO CONTROL OVER CORRECTION CARDS USED TO CHANGE WAGE DATA.
- NO ACTION TAKEN TO RESOLVE MISSING OR DISCREPANT 1978 WAGE DATA ON 1,009,766 EMPLOYERS SENT TO SSA BY IRS ON MAGNETIC TAPE.
- VERY LITTLE ACTION TAKEN TO RESOLVE UNKNOWN BUT VOLUMINOUS NUMBER OF PAPER DOCUMENT ADJUSTMENTS RECEIVED FROM IRS.
- NO WRITTEN PROCEDURES FOR RESOLVING WAGE ITEMS RECEIVED FROM IRS, PERSONNEL UNTRAINED AND LOW PRIORITY ASSIGNED.
- NO CONTROLS OR RECORD OF PAPER WAGE DATA RECEIVED FROM EMPLOYERS AFTER 10/79 CUT-OFF PERIOD FOR 78 TAX YEAR AND SENT TO IRS.

RECOMMENDATIONS

- Request and process 1978 wage tapes returned to two identified employers.
- Search tape vault for unprocessed wage tapes and process discoveries.
- Have direct employer contacts made by systems and clerical personnel, not through regional offices.
- For force-balanced reports, contact employers to resolve discrepancies.
- Resolve difference between amounts of wage items on tape and transmittal documents before processing.
- Document all employer contacts and record in employer folder at Office of Central Operations.
- Stop accepting tapes without transmittal documents signed by corporate officials.
- Automate manual process of reconciling wage data reported on transmittal documents to wage totals on tape.
- Maintain tape file of correction and adjustments to reported earnings made by clerical personnel, as audit trail.
- Expedite review of the over 1 million unreconciled, missing and discrepant cases received from IRS.
- Resolve all paper wage report adjustments (controlled by the pound) received from IRS.
- Retain copies of all wage reports received from employers and forwarded to IRS after cut-off period for regular IRS processing.

Chairman PICKLE. Thank you, Mr. Kusserow.

Now, I first assume, Mr. Densmore, that your organization, HHS—GAO, excuse me, does not oppose the issuance of the tamper-proof card, but would recommend that it not be issued immediately until certain reviews have been made or procedures established or more training held?

Mr. DENSMORE. That is correct, Mr. Chairman. We are not opposed to it. I would not want to imply that we are in any way. What we are trying to do is just point out that, one, SSA is in the process of doing some training now. It makes sense to have that training completed before these cards are issued.

And, two, that it will take many years to replace these cards if it is done on a new applicant basis and when people request them, and that during this period of time, there could still be a large amount of misuse and abuse so long as the old cards continue to be acceptable.

Chairman PICKLE. How much more time and training would you estimate we would need, 6 months, a year, 2 years?

Mr. DENSMORE. The information we have is that the SSA people expect to have this training completed by July of next year.

Chairman PICKLE. All right.

Thank you very much.

Now, Mr. Kusserow, you abbreviated your statement and we appreciate it. You are the Inspector General. I want to ask you, from your study resulting in your July 1982 report, can you tell me what the effect of duplicate posting of wages will be?

Mr. KUSSEROW. There are several things that could happen. One could be to inflate the dollar amounts of benefits paid. This is because SSA records would say the beneficiary earned more money than he did.

Another possible effect would be that the Treasury would pay into the trust fund money they should not be getting and which Treasury did not receive.

This could occur because SSA's records are the basis for Treasury's allocation of the FICA taxes to the trust funds.

Another problem would result when IRS uses inflated wage data to pursue the employer for additional FICA taxes and the employee for not reporting wages SSA shows were received.

Chairman PICKLE. What would be the effect of unposted wages?

Mr. KUSSEROW. Again, there are several possible effects. One, wages earned by an employee would not show up on SSA records. This could unfairly reduce the dollar amount of benefits to the individual, and in extreme cases, this could also mean that the employee might not be able to be credited with enough quarters of coverage to permit him or her to retire and receive social security payments.

Second, the trust fund would be affected if SSA records do not show proper amount of wages, because the Treasurer would not pay in the full amount of FICA taxes to the trust funds.

Chairman PICKLE. Could you give us an idea of the size of the unreported, unposted wages? Do you know what it may be? Can you estimate what it might be, either in number of employees or volumes of wages?

Is it a major amount?

Mr. SIMMONS. No, sir, we cannot. The Commissioner testified this morning that unposted wages totaled $80 billion, but we cannot confirm that number.

Chairman PICKLE. Would the problem presented in your report be resolved, or alleviated, by a return to the quarterly method of reporting?

Mr. KUSSEROW. There are both advantages and disadvantages to quarterly reporting. On the one hand, SSA would receive wage data more frequently, and would thus be able to keep its records more current.

Also, the effects of mishandled tapes would tend to be lessened, in that only a portion of the data, one-fourth, would be affected in any one time.

On the other hand, employers would have to file more reports, four quarterly reports, plus an annual report, and SSA would have to process the reports four times a year.

This would be costly for the employers and for SSA, and would go against the intent of the Congress in authorizing combined reporting, that is, to reduce the tax reporting burden to the employers.

Chairman PICKLE. Now, you have given me the pluses and minuses of the situation. More specifically, though, I ask you, did we—was the Congress correct in going to the annual reporting or should we go back to quarterly?

Do you, representing the Inspector General, have a recommendation on that?

Mr. KUSSEROW. I would think going back to the quarterly method would totally immobilize SSA and would have a very negative effect on the system, both for SSA and for the employers.

Chairman PICKLE. I see.

Your report covered basically the tax years 1978 and 1979. Has SSA corrected the conditions that caused the problem in your report, or do these conditions still exist?

Mr. KUSSEROW. SSA has taken steps to improve its processing system. In fact, in July I met with Commissioner Svahn to go over findings of our report and to discuss further improvements to the system, but at this time, SSA still needs to address the necessity for effective front-end control, the organizational structure of the annual wage process, and the related realinement of functional responsibilities as well as the related need to make certain fundamental changes in the operation of the annual wage process.

These changes include direct contact with employers by SSA central office personnel, greater use of automated techniques to replace existing manual processes and taking full advantage of the available sophisticated state-of-the-art equipment such as online CRT terminals.

Chairman PICKLE. Do you have any plans for further review of the procedure on reporting of wages?

Mr. KUSSEROW. Yes, Mr. Chairman, we are working with the Commissioner on that and we have had communications with him very recently and we intend to have communication with him in the future to monitor the improvement of the processes and to assure that——

Chairman PICKLE. Are you satisfied with the progress that SSA is making based on the findings of the report earlier?

Mr. KUSSEROW. No audit organization is ever satisfied with the progress made. We would like to see more improvement all the time.

We are heartened by the fact there is a willingness to address the problem and come up with solutions. So, from that standpoint, I will say I am satisfied.

Chairman PICKLE. I thank both of you gentlemen for your testimony. You are very helpful. We are going to review your testimony in more detail as we look into this matter further, but we thank you for something and having it for the record.

Now, I see that Mr. Simmons has come back and Mr. Sabatini. If you gentlemen would like to proceed now and get this to conclusion.

STATEMENT OF PAUL B. SIMMONS, DEPUTY COMMISSIONER OF SOCIAL SECURITY, NELSON J. SABATINI, ASSOCIATE COMMISSIONER FOR MANAGEMENT, BUDGET, AND PERSONNEL, AND ELLIOT KIRSCHBAUM, ASSOCIATE COMMISSIONER FOR SYSTEMS REQUIREMENTS (RESUMED)

Mr. SIMMONS. I am accompanied by Nelson J. Sabatini, Associate Commissioner for Management, Budget, and Personnel and Elliot Kirschbaum, Associate Commissioner for Systems Requirements.

Chairman PICKLE. Glad to have you, gentlemen. I thank you for coming back.

Now, I wish that the subcommittee would have had more time to analyze some of the testimony that the witnesses have presented and points which concern us.

We may have to have a followthrough hearing after we digest these statements. But I think it is important first that we look into the questions of the matters of wage reporting.

Now, earlier this morning, Congressman Leon Panetta of California testified that two concerns in his district have discovered earnings for 1979 of employees who had not been posted.

He listed them, the California Register-Pajaronian, if that is the way you pronounce it, which was a newspaper, and he listed an aluminum fabricator.

I want to ask you, have you looked into those two particular companies?

Mr. SIMMONS. I don't know about the second one, but I know about the first one. The Commissioner even tried to call the editor of the paper last night to tell him that we figured out what the problem was and that the wages would be posted for that company in October.

Apparently there were several companies in Mr. Panetta's district that subscribed to the same wage reporting service. The wage reporting service had fouled up the format of its tapes, and we were unable to use them. But we have settled that problem with that service, and we now have them using the right format and will post their wages.

Chairman PICKLE. If Congressman Panetta had not raised this question, you probably would not have made that call last night?

Mr. SIMMONS. Perhaps not last night, but occasionally the Commissioner does that because he takes a personal interest when something like this comes to his attention.

In the normal course, we would have worked out the problem with the wage reporting service.

Chairman PICKLE. Let me take another statement that he had made this morning. I want to use it as a base for the question.

He said that SSA has not recorded any earnings for 14,000 Western Union employees and 575,000 Air Force employees for 1978, if I remember his testimony this morning. Are you familiar with—with those possibilities or has there been any discussion of that?

Mr. SIMMONS. I am pretty sure, I would have to check, but I am sure we have solved the problem with the Air Force.

That was the single largest problem we had at one point.

But——

Chairman PICKLE. When did you solve that problem for the Air Force?

Mr. SIMMONS. In the last few months, I am told. I would have to check specifically. We had several problems with large employers like the Air Force.

Chairman PICKLE. How the hell could you have had a failure to post the wages for 575,000 Air Force people?

Mr. SIMMONS. Well, I am not familiar with the individual problem, but it can very often be that when their payroll system is not compatible with our reporting system, it takes time to work out the problem in format interface, bringing the two patterns together so we could process their reports.

It could be as simple as that or it could have been a failure on our part or the part of our optical scanners to get the right thing. I don't know. But it is possible.

Chairman PICKLE. That is alarming to think that that many people would be involved. You would think that at some time, some of those people would have asked for their benefits and would question the amount of money they were getting or this would come to your attention sooner.

Do you have to wait until somebody raises the question to see whether they were posted?

Mr. SIMMONS. I will ask Mr. Sabatini to address that.

Mr. SABATINI. With regard to making sure people get full credit for all their earnings when they apply for benefits, Mr. Chairman, we, as a matter of standard procedure, make sure that our local offices were aware of the fact that earnings for 1978 and 1979 may not be posted. At their initial contact with an individual, the local office asks each person to submit a W-2 or some other form of evidence that we can use to credit their earnings and to be sure they get the full amount of the benefit due them.

Mr. SIMMONS. In response to the broader part of your question, do we have to wait until we have a complaint? No, we do not.

In any of the cases where we know we are unable to use the material submitted to us because of a problem with the format or something, we are working with the employer to work that out.

That was what was happening in the case of the wage reporting service involved in Mr. Panetta's district. We were in the course of working that out.

We know when the tape comes in, when we try to run it against our tapes and it will not work, that we have to go work with them to straighten it out.

Chairman PICKLE. You stated in 1979, 8,000 employees of CBS and 22,000 of ABC employees have no wages recorded.

Mr. SIMMONS. That was a format problem with both those companies and we have worked it out. We are doing another run in October where a lot of these problems are going to disappear. A lot will be taken care of then.

Chairman PICKLE. If that is happening in those instances in his district, we have to assume that that is happening in every district throughout the United States and that you have literally millions of people whose wages have not been posted.

Is that not a reasonable assumption that we have to make?

How many millions of wages have not been posted as of this date that are out of date, so to speak?

Mr. SABATINI. For 1978, Mr. Chairman, we know there is 186,000 items; for 1979, it is 150,000; for 1980, it is 3.5 million; and for 1981, we have not posted any wages yet.

Chairman PICKLE. I can understand 1980, but what about 1978 and 1979? Do you have all them posted?

Mr. SABATINI. No, sir, for 1978, there are 186,000 unposted items; for 1979, there are 150,000.

Mr. SIMMONS. This is in the realm of less than 1 percent of the total items reported. The entire universe of 1978 was 150 million items. We have gotten that down to less than 200,000 that remain to be posted.

Then in 1979, the total was 155 million items. That is now down to about 150,000.

So when we talk about the unposted earnings at this point, you are talking about a very, very small percentage of items that still have to be done.

It is troublesome they are not done. They should have been done timely. We think that, in the future, with the improvements we have already made, we should not have that kind of a nagging backlog.

When our new system is in place, we should not have any problem whatever.

Chairman PICKLE. In no instance can the public accept the fact or understand the fact that wages from 1978 and 1979 have not been posted to their earnings.

Mr. SIMMONS. We agree. They should not be expected to.

Chairman PICKLE. The problem we have in addressing this, catching up, is it because we do not have proper equipment?

Mr. SIMMONS. Right.

Mr. SABATINI. It is a combination. It is not so much a lack of proper equipment, but basic software problems. No one here, including the Commissioner, is trying to deny the problem. I think the Commissioner has made several public statements about the severity of this problem, and it is related primarily to the antiquated data processing system we are operating with.

Chairman PICKLE. Were we not correct when we went to the annual wage reporting system, as contrasted to the quarterly? Can we do right? Would you recommend going back to the quarterly or should we stay with the annual?

Mr. SABATINI. I think the annual reporting system has pros and cons. You know it did alleviate a significant paperwork burden on the part of the private sector because it does not require the quarterly reporting that was otherwise necessary.

It also facilitated operations in our agency, and operations between our agency and the Internal Revenue Service. But on the other hand, one of the disadvantages is the workload is not spread as evenly throughout the year.

Also, we have a massive bulk of literally tons and tons of paper coming in, in the form of the W-2's. It also has jeopardized to some extent our enforcement operations because we do not learn of unreported earnings until much later than we did in the past.

So there are pros and cons on either side.

Mr. SIMMONS. It should be pointed out when it became law, the system had to be radically redesigned to accommodate the change and we were also doing a lot of other things.

At that time, we were running around 39 months for getting everything posted. We are down to 15 months and we expect to be down to 12 months once our system is modernized and the effects of that are felt.

That will be a couple of years yet. It is now down to a manageable problem, even though there are still some nagging problems that are being addressed on a case-by-case basis. But ultimately these problems should be totally addressed.

To go back to a quarterly system now, you would have to undo what has been done and it would be the same kind of a mess for a while.

Chairman PICKLE. Your feeling is we should stay with the annual reporting?

Mr. SIMMONS. Yes.

Chairman PICKLE. And catch up as quickly as possible.

Mr. SABATINI. I think the best way to describe it is our data processing system today is very, very tenuous, a fragile operation.

I think what we need is to be able to stabilize some of the existing processes that we have and get them working and get them working very well.

One of the things that has caused our severe problems in the area of data processing is that we have the constant changes in law and policy we face as an agency year after year.

Chairman PICKLE. Congressman Miller had testified earlier this morning. He raised the question if we ordered the necessary software or hardware, would it allow for a faster posting of the wages?

My question is, do we have the right kind of equipment on hand now to post these wages? Do you have the right computer system available?

Mr. SIMMONS. Yes. Not on hand, but in our plan.

Chairman PICKLE. Is it what you want?

Mr. SIMMONS. I will ask Mr. Kirschbaum to address that.

Mr. KIRSCHBAUM. We do not have the right kind of equipment available now and that is part of the modernizing of the social security system. It is something that requires a newly designed process, that will take advantage of the latest technology and state-of-the-art equipment.

Chairman PICKLE. Have you requested the equipment you need?

Mr. SIMMONS. It is built into our plan. There is a very definite plan for this area built into our overall systems modernization plan.

Chairman PICKLE. We did not have any requests this year for that systems modernization process, not in this year's budget, did we?

Mr. SABATINI. Not specifically for that process, but the 1983 budget submission contained a very significant increase in what we have asked for for systems modernization.

Mr. SIMMONS. That was part of the plan. It is not something that——

Chairman PICKLE. Is there any controversy existing between the administration and OMB as far as obtaining of this equipment?

Mr. SIMMONS. No.

Chairman PICKLE. Have they said, no, you cannot have it for budget reasons?

Mr. SIMMONS. No, there are no problems with any of the quarters we have to check with, as far as we know, or as far as being funded is concerned. Everybody is enthusiastic about it. They understand we are on the edge of a crisis situation out there and no one wants to take the blame for the ultimate crash of the system, so we are getting great cooperation.

Chairman PICKLE. When do you think we will have the wages posted for 1978 and 1979?

Mr. SIMMONS. We are running through a posting cycle now. I am told it will end around February and by then, we should have that substantially done.

There should not be any more of the 1978 and 1979 backlog. We will have some of 1980 to complete. Of course, we have 1981 to do. But those few hundred thousand still left from 1978 and 1979 should be taken care of.

Chairman PICKLE. You are allowing for 5 months roughly. Why should it take that long?

Mr. SIMMONS. Part of the problem is that we have a great backlog in computer operations—120,000 hours total, which is more time than we could possibly get under present circumstances. Thus we have to backlog the workload and apportion it out.

Chairman PICKLE. 120,000 hours of posting?

Mr. SIMMONS. No, that is the backlog for all our computer operations. It will take about 5,000 hours of computer time to complete the processing of 1981 earnings. That is equivalent to running one of our biggest machines a whole year.

Chairman PICKLE. I would hope you do it sooner, but we will put it in as a matter of record that it is your hope and your estimate that by February 1983, we would have all these wages for 1978 and 1979 posted and completed.

Mr. SIMMONS. Meanwhile, as you know, when anyone who had earnings in those years is approaching us to start drawing benefits, or update their benefits, we can do it manually with their W-2 or other proof of wages. I don't think that a significant number of those people are being disadvantaged by this delay in posting because they are in contact with us so they know of the problem. They are routinely asked, as a matter of course: Do you have any earnings for these years? We do that if recent earnings do not show up on the wage record.

We can fix it manually at that point.

Mr. SABATINI. Let me make one point, if I might, Mr. Chairman. It is not strictly computer time causing the delays for the remaining items for 1978 and 1979. We have posted 150.5 million items for 1978. Of the remaining 186,000 items, a large portion of these represent earnings reports we have gotten where there are transposed digits or a mistake in the account number, as reflected on the report. Often they do not match with our records and we have to go back and make a personal contact with the employer, and often with the individual, to clarify the situation. Then we post.

Chairman PICKLE. I can see that some cases may have a clarification problem, and other information would have to be submitted for the posting.

No matter what, though, you may need more time, but it is still unacceptable that wages of 4 years ago have not been posted or cleared up at least.

Mr. SABATINI. I don't think any one disagrees with that.

Chairman PICKLE. We are going to knock on your door again in February to get a full report about 1978 and 1979.

Now, with regard to the subject matter of debt collection, since you gentleman left, we have had several people offer testimony and it has disturbed us.

We are going to look at a lot of that testimony and submit to you for your response some of these allegations. What we are trying to find out is what is happening there.

The allegation was made this morning that incentive awards have been made or promised to employees based on the number of overpayments they collect.

Is that true?

Mr. SABATINI. It was true in one instance and we have stopped it. There was an instance where in one of our collection centers, the manager was offering a nonmonetary award as recognition for the outstanding collector of the month.

We have stopped that. It is important to understand one point, that in this center the type of cases being worked and the type of collection activity going on involved cases in which the individual had been overpaid, had been informed of the overpayment, had been informed of the right to apply for a waiver, had signed an agreement that, in fact, agreed it was an overpayment and agreed to repay it through monthly installments and then we do not hear from them for anywhere from—well, at all after that.

What these centers do is follow up with the individuals and say: You have agreed you were overpaid, you have agreed to installments, but we have never received anything from you.

Chairman PICKLE. As far as you know, the offer of the incentive was one isolated instance, one particular district?

Mr. SABATINI. Yes, sir.

Mr. SIMMONS. The particular incident that was at issue in that testimony, as I understand it, was that one. There may be a question of good taste in saying someone is a collector of the month, but it is important to note here that in all the Federal bureaucracy, all the Federal service, there is incentive built in for doing a good job, whatever the job is. Debt collection is a job being done by a Government worker, and a person who works very well may find himself promoted into something else or promoted higher up just like in any other job.

If you did not have any incentive, whether it is monetary as in the merit pay system, or just bureaucratic achievement citations, that type of thing, you couldn't give workers recognition. There is nothing wrong with the concept of rewarding a person who does a good job.

Chairman PICKLE. I can understand that you make a recommendation of the work someone may have done in a particular field. But if you isolate that endeavor specifically, saying, if you collect a certain amount you will get a certain rate or promotion, then you have a different situation.

You are overzealous and that could not be tolerated.

So, I am glad that you have stopped giving promotions on the basis of collections. But it is certainly a part of the performance that would and should be recognized because it is expected to either be effective or not.

Mr. SIMMONS. We had one debt-collection center operator whom we identified in a New England town who had taken it upon himself to contact someone in the Merchant Marine, got him during a hurricane on the high seas, by ship-to-shore radio, and had a $1,400 check delivered to us the next day because he was so astounded at being tracked down by our center. And this employee ended up on the front page of the Wall Street Journal. It was a great story.

Another of our people in Missouri who found somebody on a submarine who owed us money, got the money back and did it through the Defense Department ship-to-shore. It is that kind of good work that deserves recognition.

There are a lot of eager employees out there who are doing an exceptional job and that kind of person should end up on the front page of the Wall Street Journal. He is a Government worker who is doing his job and doing it well.

Chairman PICKLE. One of the witnesses, Mrs. Sweeney, stated that the form letter we had mentioned this morning that was mailed out to the Arlington office, which made reference to the fact that Congress and the administration were in the process of establishing a procedure that would allow for charging of interest on uncollected debts, was not an isolated incident, but that, instead, was part of a training project for employees and had been used all over the country. She said that this same general letter has been used all over the country. Is that true or not?

Mr. SABATINI. No, it is not. The letter you showed us this morning—and there have been some other isolated instances—was locally prepared, and we have made it very clear that the use of locally prepared letters is to stop.

Chairman PICKLE. We will ask the staff to inquire of Mrs. Sweeney if she can furnish the committee evidence of this same kind of letter.

Mr. SIMMONS. We will send you all of the materials that have been sent out to our local offices.

Mr. **Sabatini**. And also copies of the nationally prepared letters for you to look at, too, because we see to it that those are prepared in consultation with the General Counsel to make sure people are fully informed of all their rights and given any information they need.

Chairman **Pickle**. Earlier, Mr. Svahn has said that the SSA waived 80 percent of all overpayments.

Now, one of the witnesses earlier stated that that was not the case at all, that in certain thousands of cases, only 26 of them, well, practically none of them were waived.

The case of waivers were just almost unheard of.

We need to clear up that testimony. What did Mr. Svahn mean?

Mr. **Simmons**. He said that in cases where we have the authority to waive, then we do waive 80 percent of the time. It is running even higher than that.

You have to remember that under law we are prevented from waiving some 80 percent of title II and 65 percent of SSI overpayments.

We cannot waive certain classes of overpayments under the law, but of those that we can, we waive over 80 percent of the time.

Chairman **Pickle**. If you can assume that you can only waive 1 percent of the people, 80 percent of that is not very meaningful.

Mr. **Simmons**. In the one case, 80 percent of 20 percent and 80 percent of 35 percent in the other case, so that is a significant percentage

Chairman **Pickle**. I had the feeling that the Commissioner was saying to me that in most cases, we do waive it, or that we try to be reasonable and say to the local offices, that you try to be helpful and do not collect it, do not try to push it if you can, and I thought that you have been very cooperative with the average individual, but the actual amount you are actually waiving is almost an infinitesimal amount, isn't it?

Do you have a figure to show me how many you actually waived?

Mr. **Simmons**. He was very careful to point out that 80 percent of those that we are able to waive under law, we do. We cannot waive, under law, any overpayment where the recipient is at fault.

Chairman **Pickle**. You are assuming that they are at fault.

Mr. **Simmons**. We assume they are at fault—we have some numbers that are in the testimony. I forget the exact percentages, but there is a significant percentage of overpayments that are because people have failed to report changes in circumstances or changes in earnings, changes in income, those kinds of things which very clearly under the law, they must.

We even remind them up to four times a year through check stuffers that they should promptly report any such changes in their circumstances.

When a person comes in for an SSI eligibility redetermination, he is reminded then, also.

Chairman **Pickle**. We need to have a much better understanding about how you handle these "at fault" type cases.

You start off by assuming that they are at fault, so if you waive 80 percent of that number, you are waiving a very small amount.

Mr. Simmons. If they failed to report a change in income or circumstances that affects the level of their payment, they are at fault.

It is not our assumption. We have asked them to report and told them their rights and responsibilities. They are spelled out when they come on the rolls. And they are reminded three or four times a year by check stuffer to do this.

Legally, if they have not reported, they are at fault.

Chairman **Pickle.** Well, have you changed your standards on who is at fault?

Mr. Simmons. No, sir.

Chairman **Pickle.** I think the subcommittee is going to ask further investigation be made of this, because the public has a feeling that they have a right to have their cases waived.

If they wanted to waive a very small percentage of them, it seems to me like you are limiting the relief to begin with.

If that is the only procedure, of course, you can take under the law, we may look into the possibility of changing the standard, but it looks to me like that is a legitimate matter to pursue further.

Mr. Jacobs.

Mr. Jacobs. A question to the panel. Can you lawfully, and do you levy on 100 percent of a retiree's social security benefit in the case of overpayment?

Mr. Sabatini. We can. In the process, Mr. Jacobs, the first thing we do is send the overpaid individual a notice telling them they have been overpaid, the reason for the overpayment, and that we would like either full repayment or to withhold future benefit checks until such time as the overpayment is recouped.

We are also very careful to make sure that the notice also tells the individual that if this would cause a hardship, to come into our office so that we can work out and negotiate an acceptable payment schedule.

Mr. Jacobs. What percent of the beneficiaries in that category depend entirely on the social security income, have no other income?

Mr. Sabatini. In the title II program, the vast majority of overpayments are caused because of work activity, so that our recoupment has been over 90 percent in those cases. Our recovery rate has been quite high, because we are dealing with individuals who have outside income.

Mr. Jacobs. Well, now I have been handed a letter to an SSI recipient which would indicate to me not very much outside earning which indicates a threat to take 100 percent of the check.

Is that a slip-up? Is that your normal policy?

Mr. Sabatini. I would like to see the letter.

Mr. Jacobs. OK by me.

Mr. Sabatini. The letter that should have been used would have also informed the individual that if 100 percent withholding would cause a problem, then he should contact the district office immediately to work out an acceptable repayment schedule.

Mr. Jacobs. I honestly am troubled by that, sir.

It may not be your fault. It may be the fault of the statute. Go ahead and take a look at that letter.

Is there anything in that letter that indicates to that person they can come in and state hardship?

Mr. Sabatini. I beg your pardon.

Mr. Jacobs. Is there anything in that letter that indicates to that person that she can come into the Social Security Office and state a hardship and avoid the withholding of all her check?

Mr. Sabatini. It does say if you cannot make full refund at this time, please refund as much as you can or contact us and arrange for refunding the balance. If you wish to discuss a different method, call or write or come into this office.

This letter is the type that is used for an individual who had received SSI benefits, was overpaid, and is no longer eligible for SSI benefits, but is still eligible for title II benefits.

Mr. Jacobs. You do not find anything in this letter that indicates to this woman that she has some right of exception or waiver by reason of her hardship; do you?

Mr. Sabatini. This would have been the second letter that this individual had received.

Mr. Jacobs. I do not think that responds to my question.

For the record, do you see anything in this letter that states her right?

Mr. Sabatini. No, but there would have been an earlier letter that would have said, we have determined that you were overpaid $1,904 for the following reasons. If you disagree with this, you have a right to have that finding reconsidered.

Mr. Jacobs. It does not say anything about hardship.

Mr. Sabatini. The first letter would have gone beyond that and explained the rights to waiver.

Mr. Jacobs. This would cause a hardship, your case might be considered special, any language like that?

Mr. Sabatini. In the first letter?

Mr. Jacobs. Yes.

Mr. Sabatini. I would have to see the language.

I am sure the language——

Mr. Jacobs. You claim to be absolute on the money, so to speak, and the person instructed to get in touch with the office, in case there is a discrepancy, would not get in touch with the office, but if in addition to that, as you indicate, if there was some information about a hardship provision, it might be helpful.

Mr. Sabatini. The initial letter would have contained language that says you have certain additional rights with respect to overpayments whether or not you agree you have been overpaid.

"Under the law, an overpayment must be withheld from payments due you, or paid back, unless both of the following are true: (1) You were not at fault in any way in connection with the overpayment and, (2) You cashed the checks, because you thought it was due, and you could not meet your current necessary living expenses if you have to pay the money back, or repayment would be unfair or for some other reason."

Mr. Jacobs. What would the timeframe be between the first letter and the second letter? Could it extend into years?

Mr. Simmons. No, there is a 30-day notice and we expect to hear from the recipient within 30 days. It says that in the second paragraph.

Mr. JACOBS. The reason for not including the information about hardship waivers or adjustments in payments in the second letter is what?

Mr. SIMMONS. You have sent out a letter to a person, remember, who under the law, under regulations, under the terms under which he applied for the program, et cetera, is required to report changes in income, changes in any kind if arrangements that affect the benefit level.

This is a person who is used to dealing with us. If you send out a letter that says—"if we do not hear from you within 30 days * * * " you assume that person is going to contact you.

The second letter goes out and says, in effect, well, we never heard from you so we are going to start doing something. And that is going to get their attention.

Mr. SABATINI. We have been criticized for putting too much language into our letters.

Mr. JACOBS. I can envision a situation where the first letter comes and the second letter comes, and you have had it, whereas you have not in terms of the first letter, which was just a warning.

Would it be all that much trouble to have that little information?

Mr. SABATINI. This letter had been revised.

Mr. JACOBS. To include what I said, the notification of hardship adjustments?

Mr. SABATINI. It says that: We sent you a notice that you have been overpaid supplemental security income payments and in that notice you were told how the overpayment happened and your rights under the law.

The refunding language is there, and it also says if you have any questions concerning this overpayment, or your rights under the law, please call or write or come into this office.

Mr. JACOBS. That is getting close.

I am not really complaining. Frankly, when somebody receives something to which he or she is not entitled, it ought to be paid back.

Mr. SABATINI. This letter was revised and we issued the revision.

Mr. JACOBS. The rights under the law, I suppose that comes close.

Up until 1975, as I mentioned earlier, it was lawful for the IRS to levy 100 percent on a person's salary or wages for delinquent taxes which was immensely harsher than the garnishment laws in most States that I know about—and I happen to be the author of the law by which that was changed.

So there would be a cost-of-living exemption. We had a case out home where a young man working for the Gary Steel Mills had $100 of his check taken; and after about 5 weeks, took a gun and blew out his brains because he couldn't support his children.

We changed that, and I suppose there are golf-cart cases, a person well off and withholding the whole thing would make sense, but the statistics would indicate that that would be the exception rather than the other way around.

I am wondering if there ought not be some statutory provision to reflect that reality. Does anyone have an opinion?

Mr. SIMMONS. I don't think, sir, that it would be necessary to have a statutory change to do something like that. In the title II cases, as we said earlier, the vast majority of those are people who are working after retiring, and they earn too much and are affected by the retirement test and so forth.

A lot of people use the social security system as an interest-free loan for a year, for example. They tell us they are not going to earn anything, and then they work, and later send the benefit money back. But they have had the use of that money for a year.

In cases of SSI overpayments, we say if you agree, we will take 100 percent out of your next checks or negotiate a payment schedule. We would like to get it back within 3 years, but we will negotiate a payment schedule that fits the case.

Mr. JACOBS. I understand the statistics. Those people eligible for old-age and survivors benefits, the mass of people who qualify, who are eligible, are entitled. A relatively small percent have the capacity to earn more than the retirement test.

Mr. SIMMONS. The majority of the cases we are talking about are those who earn over the annual exempt amount. In the title II program, the overpayment rate is very small as a general percentage of the program. This is because it is a "neat" program in the sense that you earn so much money, you paid so much in taxes, and you will get so much in benefits.

That is why the vast majority of these overpayments are recovered because these are people who are working and, in many cases, they did not understand the system or are abusing it.

We go back to them after posting their wages, and they give us the money back.

Mr. JACOBS. Are you saying the people who are not eligible for SSI, the people——

Mr. SIMMONS. The vast majority in title II——

Mr. JACOBS. Are you saying that the ones who are not working do not exceed the retirement test; there is almost never an overpayment?

Mr. SIMMONS. There is a very small percentage of error in that group.

Mr. JACOBS. By how much do these people exceed? If you exceed by, say, 20 percent, then you have half that amount, isn't it taken off your social security?

Mr. SIMMONS. Right.

Mr. JACOBS. How much do they?

Whoever ends up owing benefits?

Mr. SABATINI. The average overpayment in the title II program is approximately $750.

Mr. JACOBS. Thank you, your contribution is very much appreciated.

Chairman PICKLE. Well, we have had a long morning, but I cannot let you go just yet without repeating in some manner the same type of question. I want your response with respect to the authority to have a pilot project or a right to collect these moneys.

I want you to furnish to the committee your authority to use debt collectors, third-party collectors. That has been challenged this morning.

[The following was subsequently received:]

DESCRIPTION OF SSA'S LEGAL AUTHORITY TO USE PRIVATE COLLECTION AGENCIES

SSA has been planning to contract with two private collection agencies, beginning in 1983, to pursue a sample of unresponsive cases in which we have been unsuccessful in obtaining repayment of overpayments. Our authority to operate this pilot program is derived from the April 1981 joint Department of Justice/General Accounting Office regulations which amend 4 CFR Part 102. The regulations advise Federal agencies to consider contracting with private sources, such as collection agencies, for collection services to supplement Federal collection programs.

Prior to the issuance of these regulations, GAO took the position that Federal agencies could not legally delegate to private contractors the collection authority granted them under the Federal Claims Collection Act of 1966. In 1981, the Department of Justice and GAO reexamined the legal position that Federal agencies were precluded from contracting with collection firms in light of the enactment of the Fair Debt Collection Practices Act of 1978, which effectively eliminated the primary policy objection to the use of private agencies—inadequate safeguards of debtors' rights—by specifically prohibiting collection agencies from engaging in abusive, deceptive or unfair practices under penalty of law. The Department of Justice and GAO concluded that, although Federal agencies must retain control of, and ultimate responsibility for, debt collection activities, the agencies may use private agencies under contract to perform routine debt collection responsibilities such as locating debtors, arranging for repayment schedules, and billing and posting payments. The purpose of encouraging Federal agencies to contract for debt collection services was to reduce the large number of debts written off as uncollectable or referred for legal action that could otherwise be collected in a cost-effective manner by a skilled third party resource.

As you know, since the September 23 hearing, the Congress passed and sent to the President for signature, H.R. 4613, the "Debt Collection Act of 1982". One provision of H.R. 4613 gives Federal agencies the authority to contract with private collection agencies. However, the bill excludes debts arising under the Social Security Act from the bill's applicability. We are examining what effect, if any, enactment of H.R. 4613 will have on our planned pilot program.

Chairman PICKLE. One witness made a lot of charges, and I want you to respond to them.

Some of the problems you have in the collection techniques are as follows: One, that you send out harassing notices, is that true?

Mr. SABATINI. There have been instances of inappropriate, and if you will, harassing notices.

Chairman PICKLE. Has that been corrected?

Mr. SABATINI. As soon as we discover them, we immediately put a stop to them. We have also issued generalized instructions to all of the district offices telling them that they are not to use locally prepared notices.

Chairman PICKLE. One charge was that you, your people make early morning calls as early as 6 a.m.

Mr. SIMMONS. I do not think that that would be standard practice or tolerated practice anywhere unless you had a situation where, for example, the person is a factory worker on the early morning shift, something like that.

You could have a situation like that. There may be people who are just not available at any other time, but I would say, broadbrush, that it is just not true that we have a national policy that you can call people in the middle of the night or before the Sun is up.

There is probably an instance of somebody in some particular case where this has occurred. But it is not a policy.

Chairman PICKLE. You make unannounced visits to a recipient's home, go to their home and knock on the door.

Mr. SIMMONS. That would be in a case where all other efforts to reach the person have failed. If you call and write repeatedly and cannot get the person, we will send someone out to see if the person still lives there and is alive.

Chairman **Pickle**. You use threats to withhold benefits where that is not legally possible.

You use threats?

Mr. **Sabatini**. Again, there was a situation where a locally prepared notice made a statement that we would withhold across program lines. But that was wrong and we have corrected it.

Chairman **Pickle**. All right.

Mr. **Simmons**. We will send you all of the materials that are supposed to be in use in the field and if you examine those, you will find that they are legal and in good taste, et cetera. Where we get a complaint of an isolated instance like that, and you are going to get this in any large organization—people who do crazy things—we stop them.

They have been called to our attention by Congress or legal aid groups and in every instance where there is something wrong being done, we stop it.

Chairman **Pickle**. The subcommittee does not take the position that we should not collect this money. We simply ask that you use proper procedures, that they are not distasteful or harsh, and that you are not trying to place the collection of money over the rights of the individual.

Mr. **Simmons**. We fully agree.

In any statement that either I or the Commissioner or anyone else has made, any public statement concerning the debt collection initiatives, we have constantly stressed that we are not interested in collecting this money at the expense of the rights of individuals.

Chairman **Pickle**. Again, I want you to submit a statement to me, I am trying to understand how we can start off with a $1.9 billion debt and start off the following year you owe $2.2 billion.

It must be an awful big float from year to year to year.

[The following was subsequently received:]

Two of the three basic functions of SSA's debt management initiatives are detection and collection of overpayments. (The third basic function is prevention.) SSA has expanded and improved its detection efforts in recent months, while collections have increased at a lesser rate. Additionally, improved processing of annual reports of earnings and earnings enforcement activities have helped increase SSA's potential for detecting overpayments. As a result of our improved detection of overpayments and the processing of annual wage reports and enforcement actions, coupled with a more stabilized debt collection function, we are experiencing a growth in outstanding debts owed to SSA. Improved collection and elimination of the backlogged debt should stabilize the outstanding debt at some point in the not too distant future. (Attached is a table enumerating the debt flow situation.)

BENEFIT OVERPAYMENT STATISTICS FISCAL YEAR 1982—9 MONTHS ENDED JUNE 30, 1982

[Dollars in millions]

	Total	RSI	DI	BL	SSI-Federal	SSI-State
Changes in A/R balance:						
Balance owed June 1, 1981	$1,932.2	$616.7	$340.9	$20.1	$730.5	$224.0
New overpayments detected	989.9	546.0	121.3	5.4	249.3	68.0
Reductions:						
Remittances	(162.9)	(97.7)	(13.9)	(0.8)	(35.9)	(14.6)
Offsets	(482.5)	(286.3)	(37.4)	(3.3)	(132.3)	23.2)
Waivers	(53.9)	(7.6)	(14.3)	(NIL)	(24.7)	(7.3)

BENEFIT OVERPAYMENT STATISTICS FISCAL YEAR 1982—9 MONTHS ENDED JUNE 30, 1982—Continued

[Dollars in millions]

	Total	RSI	DI	BL	SSI-Federal	SSI-State
Terminated uncollectable	(30.8)	(10.8)	(9.5)	(0.8)	(7.5)	(2.2)
Total reductions	(730.1)	(402.4)	(75.1)	(4.9)	(200.4)	(47.3)
Balance owed June 30, 1982	2,192.0	760.3	387.0	20.6	779.4	244.7
Benefit statistics:						
Payments	119,558.0	99,284.4	13,024.4	818.4	5,045.6	1,385.2
New overpayments as percent of payments	0.8	0.5	0.9	0.7	4.9	4.9

Mr. Sabatini. There are really three aspects to our overall debt collection strategy. One is the prevention of debt and the second is the detection of debt, and the third is the prompt collection of debt.

As a result of the problems we have had with annual wage reporting, we have not been able to do any earnings enforcement runs where we compare an earnings record with the master beneficiary record to identify cases of unreported earnings.

Now we are catching up on the posting of earnings. However, we had not done any earnings enforcement since 1978.

That has resulted in two problems. One, we have not been able to recompute benefits to give people credit, and two, we have not been able to identify unreported work activity.

Chairman Pickle. Can I assume, then, that for 1983, the debt will be $2.5?

Mr. Sabatini. Yes, sir, as a matter of fact, in my opinion, I think that if the uncollected debt or the outstanding debt continues to increase, it really will reflect that we are doing a better job in administering the program and in identifying debt.

Now, in terms of our debt management activity, what you have to compare is our collections for this year versus those of last year. And we have gone from a collection of $650 million in fiscal year 1981 to $1 billion in fiscal year 1982.

We are going to continue in 1983 to pursue our efforts to identify undetected debt.

Chairman Pickle. Very interesting.

One last question.

Mr. Edward Densmore raised certain questions about the use of the social security card as an identifier, and though they had recommended it earlier, they cautioned a delay.

He said that although SSA has not set a date for beginning to issue the proposed tamper-resistant card, we believe that SSA should not begin issuing the card until SSA personnel are adequately trained to detect fraudulent identification documents.

You stated it would be the middle of next year if you did go that route.

When, at the earliest date if you did proceed, do you expect to put those out?

Mr. Sabatini. The best answer to that is the earliest possible date for issuing these cards will be after consultation with this committee, certainly not before that.

Chairman PICKLE. Now, we understand each other and that is partially the purpose of the hearing.

I thank you very much. This has been a long hearing. We are going to continue to have these types of oversight hearings.

I know you had to do double duty and without lunch, but Mr. Sabatini, you look like you can afford to miss one. I guess we will both survive.

I thank you both very much.

[Whereupon, at 1:35 p.m., the hearing was adjourned.]

APPENDIX

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

ANNUAL WAGE REPORTING PROCESS
SOCIAL SECURITY ADMINISTRATION

Office of Inspector General
Office of Audit

Audit Control No. 13-22642

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Memorandum

Date JUL 30 1982

From Richard P. Kusserow
Inspector General

Subject Report on SSA's Annual Wage Reporting Process - ACN 13-22642

To John A. Svahn
Commissioner of Social Security

Attached is our audit report on SSA's processing of employee wage data reported on magnetic tape by employers under the annual wage reporting process. It particularly concentrates on the difficulties faced in controlling and processing millions of bits of information received on EDP tape from reporting employers, regarding detailed Federal and FICA tax information on their empoyees.

In hindsight, better planning would have made for an easier transition -- from the previous to the present system -- and avoided many of the massive system problems that arose during this period. We do want to compliment your staff though, on their dedicated work which enabled much of this information to be processed correctly; and on the efforts that have already been made to correct lingering problems.

Our report contains a number of recommendations which we feel could lead the way towards correcting these remaining problems and which, if implemented, would help to preclude their recurrence. Comments made by your staff on a draft of this report show, however, that they concurred in slightly more than ten percent of these recommended actions. Their comments were carefully considered in developing this final report, in that we closely reevaluated our recommendations, and our audit findings which led to their development. This reappraisal on our part confirmed our opinion that these recommended actions are valid and necessary.

Can you give this report your personal attention? The matters discussed are serious. Of course, we will be more than happy to make our staff available to further discuss any aspect of their work.

Attachment

REPORT DIGEST

Starting with tax year 1978 (TY 1978), private and Federal employers in the U. S. were authorized by Public Law 94-202 to begin reporting detailed Federal and FICA tax information and employee wage data to SSA on one consolidated annual report -- in lieu of the theretofore required five reports (four quarterly, one annual). At SSA's urging, and for the first time, many employers began submitting this wage data to SSA on magnetic media (ADP) tape; others continued to report on Treasury Form W-2, which is subsequently converted to magnetic media tape by one of SSA's Data Operations Centers.

The purpose of our review was to determine how well SSA carried out its administrative and operational responsibilities for accounting, processing, posting, and reporting wage and tax data received from employers on magnetic tape for tax years 1978 and 1979 (see note). Our work on procedural matters, though, included current operations. It was performed at SSA's Office of Central Operations; Office of Systems; and Office of Policy and Procedure, during the period from November 1979 through April 1981. We also visited the headquarters of the Internal Revenue Service to discuss certain problems that have arisen with certain wage data SSA furnishes IRS -- which SSA gathers from employers.

HIGHLIGHTS OF AUDIT RESULTS

Our report discusses significant problems identified in the four discrete areas of SSA's system for processing wage data received on magnetic media tape from reporting employers, as follows:

Receipt, Approval and Control of Authorization Requests From Reporting Employers

Employers having the desire and capability to report the required annual wage data to SSA on magnetic media tape must first apply for and obtain advance approval from SSA to do so. Information contained in their request (i.e. "Authorization Request" form) enables SSA to determine whether the prospective reporting employers' ADP configuration and tape characteristics can produce tapes that may be processed on SSA's computers. Upon acceptance by SSA, the information from this request is input into their "Magnetic Media Reporting Data Base" (data base) where it is later extracted to prepare ADP input cards which will allow SSA's computers to accept the reporting employer's tapes.

Note: For a description (flow chart and narrative) of SSA's processes regarding these annual wage reports, see Exhibit.

Our review found that this data base does not contain all of the information needed to make the necessary precise judgments of whether SSA's computers can, in fact, accept these tapes. Also, the data base is not promptly or consistently updated as new information becomes available on the reporter's ADP configuration, tape characteristics, and/or ability or willingness to report as authorized. This situation was caused by the following:

-- Some employers did not always fill out the authorization requests completely or accurately. Nevertheless, for TY 1978 and 1979, the requests were being accepted by SSA. Certain SSA staff commented to us that SSA during this time was more interested in promoting tape reporting and maximizing employer participation than in assuring that the authorization requests being received were accurate and complete. For tax year 1980, employers continued to submit inaccurate and incomplete authorization requests. While such requests are now being reviewed, SSA is not always able to determine whether its ADP system can accept these tapes -- as the reviewers are not familiar with all the recording codes employers may use. Under current SSA procedure, the staff reviewing these authorization requests may not contact the prospective reporting employer directly but must channel any queries through an appropriate SSA regional office. (For discussion see report, beginning on page 12, related recommendations are numbers 1, 2, 4 and 11.)

-- The authorization request form does not call for all of the data needed to permit SSA reviewing staff to readily determine whether the employer's tapes can be accepted by SSA's computers. Modifying this form to include certain additional data elements would avoid the need for costly, time consuming testing. (For discussion see report, page 14; related recommendations are numbers 3, 5 and 8.)

-- There is no one office within SSA responsible for updating and monitoring the data bases maintained on employers authorized to report annual wage data on magnetic tape -- together with the characteristics of the ADP tape they planned to submit. We believe if such an assignment were made that the possibility for continued errors and omissions remaining in the data base could be minimized. As an example of the problems noted: from time-to-time, tapes are received from reporting employers which possess characteristics different from those described in the original request for authorization. In order to process these tapes, SSA staff have had to determine their particular characteristics; but the data base was generally not corrected to reflect this information. (For discussion see report, page 13. Related recommendations are numbers 6, 7, 12, 13.)

- -- SSA's system of updating the data base is time-consuming and costly and could readily be improved by the addition of certain capabilities (on-line access to a CRT terminal system). (For discussion see report, page 13. Related recommendation is number 14.)
- -- Microfiche copies of submitted wage data are prepared by SSA for return to reporting employers, whether or not they are requested by the employers. Some of this microfiche has not been sent however, as there is no address available and it is being boxed and stored by SSA. (For discussion see report, page 15. Related recommendations are numbers 9 and 10.)

Receipt and Control of Magnetic Tape

SSA was not prepared to fully accept, manage, and control the approximately 5,000 reels of magnetic tape received for 1978, the initial annual reporting period. The following conditions existed then, and continue to exist today:

First, SSA's tape library receipt system did not account for the number of tape reels received, or for the number of individual, separate, and distinct employers who submitted employee wage information on magnetic tape. Further there was no effective control over multiple reels of tape, when each reel represented a self-contained file (complete in itself) and not part of a large multi-reel file.

Thus, SSA can not accurately determine (i) what employer tapes had been received, (ii) whether employers authorized to submit tapes actually did so, or (iii) whether tapes that were received actually entered the data processing system. Further, data from SSA's tape control system makes it appear that some tapes had not been received, when in fact they have been received and processed.

In our view, these conditions exist due to:

- -- Deficiencies in the design and implementation of SSA's tape library control numbering system. (For discusssion see report, beginning with page 25. Related recommendations are numbers 1 and 4.)

- SSA accepting tapes from employers who had not been authorized to submit wage data information in tape form. Also, SSA accepted some tapes which lacked external identifiers (as to technical characteristics). These tapes required considerable additional work to process. (For discussion, see report beginning with page 27; related recommendations are numbers 2, 5, 11, 12 and 17.)

- Problems existing with the computer program (ERTABACO) used to trace the movement of wage data through the "annual wage report process". (For discussion, see report page 29. Related recommendations are 13, 14, 15 and 16. Also, see discussion on problems with ERTABACO under the report section "Automated Processing of Annual Wage Reports".) ERTABACO should also be modified so that it can provide certain other information useful for needed front-end controls.

In addition, we believe very substantial benefits could be realized if the responsibility for accepting annual wage report tapes, determining the authorization status of employers, and sending the tapes to processing could be transferred to the Office of Central Operations. Related recommendations are numbers 3, 5, 6, 7, 8, 10 and 18.

Automated Processing of Annual Wage Reports

To ensure that wage reports would be processed quickly and accurately, SSA developed a series of computer programs that were designed to edit for data inconsistencies, compare detail data to summary data, incorporate clerical adjustments, and prepare various outputs. But, programming and other difficulties frustrated these attempts to process wage reports quickly and accurately. In an attempt to meet production goals and to halt the increasing backlog of wage reports rejected from processing, SSA suspended the duplicate detection function built into its processing system. This action, though, caused some 1.4 million duplicate wage postings (totaling $8.1 billion) for TY 1978 and 688,000 duplicate postings (totaling $3.6 billion) for TY 1979. Factors causing these delays and other problems, in our opinion, were that:

- SSA accepted TY 1978 and 1979 tapes that were either improperly formatted or coded (see previous discussion). Programmers spent up to nine months on some of these problem tapes -- experimenting, testing, and developing specialized computer programs to rearrange data formats, bypass missing or unreadable data, separate data records, and to otherwise compensate for various inconsistencies or incompatabilities. (For discussion, see report, beginning with page 44; related recommendations are numbers 1-5, and 7.)

-- The computer complex used by SSA to process wage data did not have the capability to handle computer tapes recorded by employer reporters at "high densities". (For TY 1979, nearly 1,000 of these tapes were received by SSA.) Tapes recorded for high densities have had to pass through a series of lengthy, redundant, and time-consuming operations to be processed. (For discussion, see report, beginning with page 49. Related recommendation is number 6.)

-- For TY 1978, the computer program used for the final balancing operations phase of processing the annual wage reports was flawed in certain aspects. This resulted in a number of serious outcomes. For example, clerical personnel needed to repeatedly re-input corrections, rebalance data, and so on. This slowed the overall processing to a point where there was a backlong of seven million items awaiting review as of August 1979. In June and October 1979, SSA rewrote this program, but the new program(s) were not documented. (For discussion, see report, beginning with page 52; related recommendations are 7, 8 and 9.)

-- The computer program used to track and control the processing of wage reports (ERTABACO) did not generate accurate status reports and was not always updated to reflect the receipt of wage reports. (For discussion of the specific problems noted, see report, beginning with page 56; related recommendations are 10-17. Discussion of other problems with ERTABACO are contained in other sections of this report.)

Clerical Balancing and Reconciliation Operations

As discussed throughout this report, SSA was not adequately prepared to accept the responsibility of balancing, reconciling, and correcting errors in wage data received for TY 1978. Involved SSA components encroached on each others functions and responsibilities. Operating instructions were vague. Policy matters were addressed on an ad hoc basis for an extended period of time.

SSA has taken action to correct and improve the conditions causing these problems and the resultant enormous workload buildups. In late 1979, for example, written procedures were developed for the day-to-day use of clerical personnel. Also, in August 1980 a task force was formed to work out problems associated with 9.8 million wage "items" not yet processed, although they related to TY 1978 submissions.

While the following conditions principally relate to this final phase of the annual wage reporting process, some also impact on the entire SSA processes for handling these reports. Thus, they are also discussed in other sections of this report. As indicated, some of these conditions have been corrected -- others, though, still remain troublesome:

-- Not all of the unprocessed TY 1978 wage items were reviewed by the "August 1980 task force". We disagree with the various management decisions made to exclude these items from review. Also, an additional 400,000 items were awaiting review/correction at the time of our field work. (For discussion, see the report, beginning on page 67. Related recommendations are numbers 1, 2 and 3.)

-- Because of various system or clerical errors, some tapes containing annual wage data for thousands of employees were inadvertently not processed. (For discussion, see report beginning on page 68. Related recommendations are numbers 4, 5 and 6.)

-- System problems, misunderstandings, and clerical errors continued to plague the processing of annual wage reports through this last phase of SSA's processing system. (For discussion, see report beginning on page 70. Related recommendations are numbers 7 through 12, 16 and 19.)

-- Substantial differences and problems continue to exist concerning information SSA furnishes the Internal Revenue Service (IRS) for use in tax administration and enforcement programs. (After the annual wage reports have processed through the final balancing operations, SSA provides IRS with magnetic tape files of wage and tax data. These files include information on (i) amounts reported by employers, (ii) amounts generated by SSA for balancing purposes, and (iii) records of discrepancies for all reports received and processed by

SSA and turned over to IRS for reconciliation. To facilitate IRS's research, SSA also furnishes facsimiles of all paper and magnetic media documents processed.) (For discussion, see report beginning on page 73. Related recommendations are numbers 13 to 22.)

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Many of the problems encountered by SSA can be attributed to the enormous effort involved in making major computer system changes. Others are due, we believe, to SSA's increased efforts to persuade employers to report annual wage data on magnetic media without first establishing many of the ground rules under which this operation would be carried out. Reporting employers made errors in the data they reported, partially as a result of the extensive tape format modifications that were necessary.

While SSA had taken a number of corrective actions, more needs to be done to preclude recurrence and to clear up backlogs of adjustments needed. Our report makes eleven recommendations dealing with the need for SSA to take action to (i) assure that all computer rejected or unprocessed wage reports are processed to completion, (ii) review and correct employee earnings records where necessary, and (iii) clear up backlogs of errors and needed adjustments. SSA generally concurred with these recommendations.

As has been noted throughout the Highlights of Audit Results, though, there were many other areas where improvements could be made to make the annual wage reporting process more manageable: automating certain current manual processes -- enhancing certain front-end controls; and by -- better delineating organizational responsibilities. SSA generally disagreed with our sixty recommendations concerning these points.

BACKGROUND

Prior to 1978, employers subject to social security taxes were required to prepare quarterly wage reports for IRS, listing each employee by name and social security number, and showing the total wages and taxes (including social security taxes) withheld for each employee. These quarterly reports were filed on Treasury Forms 941-A (Employer's Quarterly Federal Tax Return) and 943-A (for agricultural employees). Employers also had to submit copies of Treasury Forms W-2 (Employee's Wage and Tax Statement) to IRS annually. Under this reporting system, information needed by SSA to administer its various social insurance programs was furnished by IRS.

Preparation and filing of the quarterly reports involved considerable effort and expense on the part of employers, particularly in the case of small and medium-sized companies which did not have the advantage of computerized payroll systems. The cost involved in preparing quarterly tax reports was highlighted by the U. S. Senate Select Committee on Small Business in a report issued on April 17, 1973. The Select Committee indicated that the annual cost to small employers of submitting the Treasury Form 941-A might total as much as $235 million, based on studies noted by its Subcommittee on Government Regulation.

To reduce the tax reporting burden of the Nation's employers, Congress, on January 2, 1976, enacted Public Law 94-202. Section 8(b) of PL 94-202 authorized the combined reporting of detailed Federal and FICA tax information and employee wage data into one consolidated annual report. Thus, instead of requiring each employer to file five reports per year for each employee (four quarterly reports on Treasury Form 941-A and one annual report on Form W-2) the new law permitted employers to report pertinent data for each employee only once a year.

This consolidated annual wage reporting (CAWR) became effective beginning with reports for tax year 1978, for private and Federal employers in the United States. State and local entities are to be included beginning with reports for tax year 1981. Employers in United States possessions (i.e., Guam, American Samoa, the Virgin Islands, and Puerto Rico) are to be included at a later date. By agreement between the Internal Revenue Service (IRS) and the Social Security Administration (SSA), employers are required to submit wage and tax data for each employee to SSA by February 28 of the following year, to satisfy the reporting requirements of both agencies.

For tax year 1978, about 30,000 employers reported wage data for about 49 million wage earners on magnetic tape, and 5.6 million employers reported wages for about 137 million wage earners on paper, i.e., Treasury Forms W-2. For tax year 1979, about 127,000 employers reported wages for more than 52 million wage earners on tape, while 5.7 million employers filed paper reports for wages for over 141 million wage earners.

Magnetic media reports are sent to SSA's central office in Baltimore. Employers reporting on paper send their Forms W-2 to one of SSA's four Data Operations Centers closest to the employer's location. The Centers convert the paper data to magnetic tape and forward the tape files to Baltimore to be processed.

At SSA's main complex, the reports are "balanced", i.e., checked to make sure that the totals on the individual Forms W-2 add up to the totals on the Forms W-3 (summary transmittals showing aggregate totals). The name and social security number of every employee is validated before the wages can be posted to the Summary Earnings Records.

After the annual wage reports have processed through the final balancing operations, SSA provides IRS with magnetic tape files of wage and tax data to be used in IRS's tax administration and enforcement programs. The information on this file includes (i) amounts reported by employers, (ii) amounts generated by SSA for balancing purposes, and (iii) records of discrepancies for all reports received and processed by SSA and turned over to IRS for reconciliation. To facilitate IRS's research, SSA also furnishes microfilm facsimiles of all paper and magnetic media documents processed.

SCOPE OF REVIEW

Our review was made in accordance with standards for governmental auditing. Work was performed at SSA's Office of Central Operations, Office of Systems, and Office of Operational Policy and Procedure, during the period November 1979 through April 1981. We also visited the Internal Revenue Service to discuss the legal and administrative requirements imposed upon SSA.

The purpose of our review was to determine how well SSA carried out its assigned administrative and operational responsibilities for accounting, processing, posting, and reporting wage and tax data received from employers on magnetic tape for tax years 1978 and 1979. For policy and procedural matters, we included current operations.

We evaluated the effectiveness of manual and automated controls used to (i) account for tapes received from employers, (ii) track the status and location of wage reports and related data through the various stages of processing, and (iii) ensure that wage data were accurately and promptly posted to the employees' Summary Earnings Records. As part of our review, we evaluated the computer programs used to process wage and tax data.

Since both annual wage reporting and the processing of wage and tax data for IRS were new concepts for SSA, we looked into the degree to which SSA prepared to take on the added responsibilities involved in implementing these concepts. To determine how well these functions were managed, we appraised the scope and nature of the guidance furnished to operating personnel, and the effectiveness of administrative and operational leadership, as well as the suitability of the organizational structure and division of duties between the several SSA components involved.

To do this, we interviewed management and operational personnel, reviewed outputs from the automated system, examined the contents of computer-based data files, used automated procedures to evaluate the results of statistically selected samples, developed computer programs and used computerized techniques to match automated data files with wage reports, and made other tests and observations considered necessary in particular circumstances.

FINDINGS AND RECOMMENDATIONS

RECEIPT, APPROVAL, AND CONTROL OF AUTHORIZATION REQUESTS

SSA's Magnetic Media Reporting Data Base, (hereafter referred to as the data base) contains the information necessary for SSA's computers to accept Annual Wage Reports on magnetic tape and control them automatically. However, because the data base does not contain all the information needed to make a more precise judgement of whether or not SSA's computers will be able to accept the employers' tapes and because the data base is not promptly or consistently updated as new information becomes available it is not considered complete, accurate, or reliable. It cannot, therefore, be used as an effective front-end control of employer tapes.

Because of poor front-end control, SSA continues to encounter problems that deter quick and effective processing of wage data. For tax year 1978, for example, more than half of the tapes submitted by 30,000 employers -- covering FICA wages totaling nearly $175 billion for about 49 million employees -- were rejected from initial processing. Rather than returning unprocessable tapes to the employer to find out what was wrong, SSA spent months testing and experimenting with the tapes to get them to process. Testing tapes is a costly operation that consumes scarce programmer and computer time, with no guarantee that the tapes will be accepted after testing is completed.

Authorization to Report on Magnetic Tape

Employers who elect to file on magnetic tape are required to obtain authorization from SSA. The purpose of the authorization is to provide SSA with the administrative and technical data necessary to determine whether the employers' tapes can be processed on SSA's computers.

Information from the data base is used to prepare two punched cards. One card identifies the employer and is used to record the receipt of the employer's tape. The second card contains job control language (JCL) based on technical data defining the employer's ADP configuration and tape characteristics. The JCL is necessary to enable SSA's computers to begin the processing.

Although the data base is used by SSA to generate control cards and JCL cards, the use of these cards to perform their intended purpose is questionable. The data base (i) contained incorrect or incomplete data (ii) was not updated to reflect changes made by the employers or SSA, and (iii) did not contain sufficient data to determine whether SSA's computers would accept the employers' tapes. Furthermore, no attempt was made by SSA to assure that the tapes were submitted by employers as authorized before they entered the initial stage of processing.

Incorrect or Incomplete Requests -- Employers did not always fill out authorization request forms completely or accurately. Nevertheless, for tax year 1978 and 1979, these requests were accepted by SSA. Personnel from the Earnings Reports Balancing Systems Branch (hereafter referred to as ERBSB) told us that, in tax years 1978 and 1979, SSA was more interested in promoting tape reporting and maximizing employer participation, than in reviewing authorization requests for accuracy and completeness.

Since the JCL cards contain the employer's tape technical characteristics, any error will cause the tape to reject from processing. This delays processing and causes SSA to spend time and resources to determine why the tape rejected and make the corrections, if possible, to get the tape accepted.

In tax year 1980, employers continued to submit inaccurate and incomplete authorization requests. Although requests are now being reviewed, SSA is not always able to determine whether or not their computer system can accept the tapes. This is because programmers are not familiar with all the recording codes used by employers, and are not always sure which recording codes can be accepted by SSA's computers. In many cases, the authorization request is approved "conditionally". The "conditional" approval is given in the expectation that the tape characteristics will be acceptable to the computer.

Currently, members of ERBSB cannot contact employers directly to resolve errors, inconsistencies, or missing data that are detected in their review of the authorization requests. Instead, they are required to state the problem to the Office of Enumeration and Earnings Records, of the Office of Operational Policy and Procedures (hereafter referred to as OEER) which contacts the SSA Regional offices. Personnel in the Regional offices, in turn, contact the employers. The employers' replies follow the reverse route.

This cumbersome, time-consuming procedure delays resolution of questions and tends to distort the original definition of the problem and its eventual solution. Certain Regional Commissioners have reservations about contacting employers. One Regional Commissioner suggested that central office call the employer direct as was done in the past. Others were concerned about the lack of staff and expertise, and the need for extensive training to handle the contacts.

We believe that the individuals who have the responsibility to approve authorization requests should contact employers directly. Contacts made should be documented, with copies forwarded to the Reconciliation Branch of the Office of Central Operations. (Hereafter referred to as ROB) for ready reference and filing.

In addition, SSA should emphasize to employers the importance of portraying accurate and complete data elements so that their tapes can be processed without delay. To insure accuracy and completeness, employers should be requested to have the tape characteristic section of the authorization requests filled out by knowledgeable ADP personnel. SSA personnel in-turn must have knowledge of what the various recording code designations represent, and whether the codes are acceptable to SSA's computers.

Data Base Not Updated -- A considerable amount of time can elapse between the date that the authorization request is prepared and the date that a tape is submitted by an employer. In the interim, changes may occur that affect the employer's ability or willingness to report as originally authorized.

To identify which employers were authorized to report wage data on tape for tax year 1978, but did not, SSA matched the data base file against a file of employers who actually reported on tape. The output from the match was given to the Regional offices, with a request to determine why employers did not report as authorized.

SSA central office kept no records of the results of the matching operation, or of any actions that may have been taken by the Regions. Thus, SSA did not know which, or how many, employers were involved and could not follow up to determine when, if any, contacts had been made. Out of ten Regional offices, we found documentation that only one had contacted the employers and relayed the information to Central office. However, the data base was not changed to reflect this Region's findings.

Prior to the date of SSA's computer match, some employers advised SSA that they would not report on tape. We found 67 letters from employers requesting suspension, temporary delay, or cancellation of authorization requests to file wage data on magnetic tape. In only one instance was the data base updated. Had the other 66 notifications been used to update data base, there would have been no need to contact those employers.

Occasionally, magnetic tape wage reports could not be processed because the tape characteristics were different from those in the data base. In order to process the tapes, SSA systems personnel had to determine the tapes physical characteristics. Despite the effort expended in making these determination, the data base was generally not updated to reflect the corrections. Also, the employers were not contacted and advised of the need to keep SSA informed of any changes that would affect the information on the authorization request form.

Currently, employer correspondence requesting changes to approved authorizations is routed to OEER. Changes to JCL cards and tape technical data are made by ERBSB. Neither of these components, however, is responsible for assuring that the changes are reflected in the data base.

We believe that there should be one component specifically designated to monitor the data base to assure that it is kept current and accurate. In our opinion, that component should be ROB. All employer correspondence and JCL changes should, therefore be routed to ROB so that the data base can be updated and the documents associated with other employer data.

Insufficient Information in Data Base -- The authorization request form does not have sufficient information to permit systems personnel to determine whether employers' tapes will be accepted by SSA's computers.

If the authorization request form were modified to include the following additional data elements, costly and time consuming testing could be avoided:

- Type of Internal Label -- To process a tape, the type of internal label used must be known.
- Type of Parity (odd or even) -- Computers record data characters with an odd or even number of bits. SSA must know which is used in order to process the tape.
- Type of Recording Code -- Various electronic codes and variations thereof are in use to record data on tape. It would be more helpful if the "Recording Code" block of the authorization request form would show the three most commonly used codes (EBCDIC, ASCII, BCD) plus a space for "other", and employers asked not only to specify which code they use, but also to identify the variation.

In one of the blocks on the authorization request form, employers are asked to designate their choice of microfilm, microfiche, or paper copies of their wage data to be returned to them, or whether they want any copies at all. If an employer did not state a preference from the choices offered, or if there was no authorization form in the employer folder, ROB personnel had been directed by OEER to indicate that microfiche copies were to be prepared. After the microfiche had been prepared, ROB personnel looked for a mailing address. Failing to find an address, they boxed and stored the microfiche. ROB personnel informed us that some employers had no need for microfiche and no equipment to use it. Therefore, the practice of preparing microfiche for employers who have not stated a preference or who have not filed an authorization form should be stopped.

In fact, SSA should reconsider its policy of sending employers copies of wage data on microfilm, microfiche, or paper. Generally, employers who have ADP capabilities would also have the capability, either in house or by contract, of producing whatever it is they need in their operations. We are confident that SSA's cost of controlling, preparing, mailing, and otherwise handling these copies is significant.

Data Base Not Used as Front-end Control -- The management potential of the data base can be used not only to produce punched cards, but as a front-end control mechanism to assure the acceptability of employers' tapes before processing begins.

Because the authorization request data file is on magnetic tape, any changes to the file must be sequentially processed. This is a slow, cumbersome, costly, and time-consuming process. For example, changes to existing data, no matter how they are initiated, must be recorded on an authorization request form. (These forms are used in lieu of coding sheets.) When a sufficient number of change forms plus new authorizations have been accumulated, they are sent to SSA's Data Operations Center (DOC) in Albuquerque, New Mexico, to be keyed to magnetic tape. This tape is then returned to Baltimore and sorted in employer identification number (EIN) sequence so that the changes to the file can be processed.

To maintain current data, an improved, more effective mechanism needs to be established. By having the authorization request data file available as an on-line to a CRT terminal system that provides real-time query and update capabilities, the file could be updated immediately as information becomes available.

If there is an error in the authorization request, or if any information has been omitted, ROB could contact the employer direct at the time the discrepancy is discovered, obtain the proper information, and make the correction to the data base.

Recommendation

We recommended that:

1. SSA personnel responsible for approving authorization requests become familiar with the recording codes and tape technical characteristics of the various makes of ADP equipment in use outside of SSA, and maintain a comprehensive list of this information for reference purposes.

SSA Comment:

We agree; however, it is our position that the present method of approving authorization requests results both in a comprehensive list and in familiarity of ERBSB personnel with the technical characteristics. If the reported data can be processed, with or without programming revisions, the technical information is added to the computer program lists and related documentation, and the experience gained in handling the request familiarizes staff. Even where a report cannot be processed, the staff gains that knowledge from this approach as well. Because of the dynamics of the EDP industry, recording codes and tape technical characteristics are constantly changing. A listing in and of itself would not always be conclusive evidence that a particular tape is not processible.

2. SSA personnel also become knowledgeable as to which recording codes and tape technical characteristics are acceptable to SSA's computers, and maintain a list of these for reference purposes.

SSA Comment:

We agree; that is the result of the reference data maintained by ERBSB. Current program lists and JCL cards indicate which types of tapes can be processed. As staff turnovers occur, these materials and the tape testing experience discussed in Recommendation #1 serve as the base training devices.

3. Conditional approval of authorization request be discontinued.

SSA Comment:

We do not agree. We do not accept reports containing technical characteristics we know we cannot process; however, if a submitted report does not conform to information in the authorization request, whether conditionally approved or approved through the test tape process, it will be returned for correction and resubmittal.

Similarly, if timing is such that a test tape could not be evaluated before the reporter must submit the regular report, conditional approval will allow submittal on a timely basis. Experience has shown that this approach is less troublesome to both SSA and the reporter where the tape technical characteristics appear within SSA's capacity to process.

OIG Comment:

This recommendation refers to authorization requests, not the magnetic media wage reports that SSA is addressing.

As indicated in our report, ERBSB personnel had been instructed to approve authorization requests as they came in, regardless of the technical characteristics of the tape to be submitted. We noted, for example, that authorization requests had been approved even though the tape characteristics section was blank or contained data having little relationship to what was requested. In many instances, tapes were accepted without authorization.

Although SSA states that "we do not accept reports containing technical characteristics we know we cannot process", we fail to see how the approval of blank authorization requests and the acceptance of unauthorized tapes can contribute to effective accomplishment of this policy.

Since the authorization requests are vital to the successful processing of annual wage reports, we suggest that SSA reconsider its position and discontinue conditional approval of authorization requests.

4. The individual who approves authorization requests contact employers directly to resolve any questions when a clear-cut decision cannot be made. Employer contacts should be documented and forwarded to ROB personnel for their reference and filing.

SSA Comment:

This is, in reality, two recommendations. We analyzed the use of direct employer contact by systems personnel and concluded that in most cases, contact through the regional office is preferable. Current procedures and understanding with all involved components provide for documenting the contacts in the reference materials in ROB.

OIG Comment:

SSA states that "we analyzed the use of direct employer contact by systems personnel and concluded that, in most cases, contact through the regional office is preferable". At the time of our review, systems personnel could not make direct employer contacts regarding tape technical problems.

We would be interested in knowing the nature of the analysis used as a basis for SSA's conclusion, and when this analysis was made.

5. SSA emphasize to all employers that their tapes can not be processed if the tape technical characteristics section of the authorization request contains inaccurate data. To assure the accuracy of this information, employers should be instructed to have the technical data section of the authorization request filled out by ADP personnel.

SSA Comment:

We agree in part. Compliance with all of the reporting instructions are necessary in order to process the tape reports. Placing emphasis on the authorization request forms could be misleading, especially, since many of the smaller service centers specializing in payroll applications only employ systems operators, and contract out for software programming. We do emphasize the need for up-to-date information through regional office contacts, and find that actually returning reports for correction is a much more effective measure this third year into AWR processing.

OIG Comment:

We agree with SSA that compliance with all reporting instructions is necessary, however, as pointed out in our report, employers did not always comply. It appeared to us that the tape technical section of the authorization report was being prepared by non-technical personnel. Since the authorization request is the basic document that comprises the first step in annual wage report processing at SSA, it is imperative that the information on the form is accurate. We do not understand how placing emphasis on the need for accurate data will be misleading to employers.

As for the small service centers, we would like to point out that the required technical data should be readily available to these service centers, either in their software specifications or through their contractors.

6. Employers be advised to send all correspondence to ROB so that immediate action can be taken to update the data base and to ensure that the correspondence can be filed with the authorization requests and all other related employer data in one central location.

SSA Comment:

We disagree. The primary AWR "selling job" for mag reporting is vested in the regions. Similarly, the primary contact point in resubmittal situations is, again, the regions. Coupled with the need for the Office of Systems staff to deal with the ADP technical aspects of the report authorization, direct routing to ROB, OCRO, from the reporter would only delay the approval process and timing. In order to overcome the problems of failing to report, misrouting of requests, and any mishandling within SSA of these paper materials, we are making mandatory for TY 1982 an authorization record ("B" record) on each tape. It will provide extensive data regarding the reporting entity identity, tape characteristics, individuals-to-contact information, and return address. The employer reporting specification changes are presently being reviewed by appropriate SSA components. Upon completion of that review, they will be finalized and issued to all mag media reporters.

OIG Comment:

SSA's comments are not directly responsive to our recommendation, which concerns specifically, correspondence from employers pertaining to changes in authorization requests that had been previously approved and accreted to the Magnetic Media Reporting Data Base. Nevertheless, the following observations are made regarding SSA's reply.

The regional offices may have been well-suited to doing the "selling job" for magnetic media reporting. However, as pointed out in our report, SSA's regional magnetic media coordinators have neither the expertise nor the staff to resolve ADP technical aspects which warrant resubmittal of wage reports. The use of the regions in a capacity other than the "selling job" creates an unnecessary "intermediary" relationship. This relationship has proven to be inefficient in that additional time is required just to contact the employer. Moreover, should technical assistance be required, the regions must of necessity contact systems personnel in Central Office. For this reason, we have, in other sections of our report, recommended direct contact with employers by SSA Systems personnel. This would include both resubmittals and original authorization requests.

Also, we fail to understand the significance of the "B" record when an employer fails to report, or how it will help to overcome the problems of misrouting or mishandling of paper materials at SSA. Without a readable tape in house, the "B" record is irrelevant.

Even though employer correspondence requesting changes to approved authorizations is primarily routed to OEER, we have found that other SSA components, including the regions, ROB, and components of the Office of Systems, also received such correspondence.

7. Changes made by SSA's systems personnel that affect employer information in the data base be documented and routed to ROB so that the data base can be updated and the document filed in the employer folder.

SSA Comment:

This is now being done. The technical reporting changes identified by OS personnel are now being routed to the Office of Operational Policy and Procedures. Copies are then prepared for updating the file and for notifying ROB. The present control system was extensively reviewed in April 1981 and this clarification resulted therefrom.

OIG Comment:

SSA's comment indicates that OOPP, a policy-making component, has been assigned the operational function of updating the data base. As pointed out in our report, OOPP involvement in the day-to-day operations of the annual wage reporting process has not always redounded to efficient administration of this vital program. We therefore suggest that SSA restrict OOPP's participation in the process to the formulation of policy and writing of procedures.

8. The tape technical data section of the authorization request form be expanded to include: (i) the type of internal label used (employer should be instructed to be specific in identifying the type of label used, e.g., "UNIVAC Standard", "ANSI Standard", etc.); (ii) type of parity check -- provide check-off blocks for "odd" or "even"; and (iii) check-off blocks for the recording codes, e.g., EBCDIC, ASCII, BCD, Other, with instructions to identify any variations of these codes.

SSA Comment:

We agree and action has been taken to effectuate the changes. The redraft of the employer reporting specifications currently in SSA component review requires these data on the authorization forms.

In addition, the authorization "B" record requirements set out in the comments to Recommendation #6 above require these data as a part of the tape report as well.

9. The practice of preparing microfiche copies of wage data be discontinued for those employers who do not indicate a preference as to what is desired, or who have not filed authorization forms.

SSA Comment:

We agree; however, the practice for 1978 of providing microfiche was at odds with procedure. The current procedure for ROB states:

a. No copy code on authorization -- assume employer wants nothing;

b. No authorization in employer folder -- provide microfiche and correspond (1.5 percent of reporters).

OIG Comment:

SSA agrees with our recommendation; however, the practice of providing microfiche copies of wage reports to unauthorized employers will still result in the preparation of microfiche that may neither be needed nor wanted by the employer.

10. SSA consider discontinuing in its entirety the practice of furnishing copies of wage data on microfilm, microfiche, or paper to employers who report on tape.

SSA Comment:

We do not agree. This is one of the major selling points used by SSA to convince reporters to convert to magnetic media. The preponderance of advantages for mag media reporting are to SSA, not the reporters. We have already agreed with the several thousand reporters to provide the service. It also constitutes proof for the employer of filing. We are, however, discussing this practice in subsequent reporter contacts and where the reporter finds these materials unnecessary, they are being eliminated.

OIG Comment:

We are aware that the furnishing of copies of wage data to employers free of charge was used as an inducement to persuade them to report on magnetic media. We are confident, however, that since the cost of controlling, preparing, mailing, and otherwise handling these copies is significant, SSA may, given the current climate of austerity, want to reconsider its decision to continue these inducements. Also, SSA would eliminate the potential security risks involved in this form of prepared readable wage data.

Also, SSA's concern about proof of filing is not a valid point. For the employer, proof of filing is the signed and dated copy of the IRS Form 6559 that is returned to him by SSA to acknowledge receipt of his report.

11. ROB personnel contact the employers whenever any information (other than tape technical characteristics) is omitted from the authorization request.

SSA Comment:

Procedures have been modified to provide in specific situations to have OCRO contact the employers.

OIG Comment:

Although SSA seems to agree with the recommendation this reply is inconsistent with the comments on Recommendation #4 above, in which SSA concludes that employer contacts concerning authorization requests should be made by the regions. Since

SSA did not delineate which "specific situations" would qualify for OCRO contacts with employers, we cannot determine whether or not this reply is otherwise responsive to our recommendation.

12. The magnetic media reporting data base be purged of inaccuracies and outdated material.

SSA Comment:

We agree in principle, and the present magnetic media master file is purged of inaccuracies and outdated materials on an ongoing basis as they are identified; however, it must be kept in mind that the present data base is a tape file created once a year. Therefore, the data base is only as current as its last preparation run.

The "B" record mentioned in #6 above will eliminate out-of-date information. It will be mandatory on all reports, provide precise identification and reporting characteristics, and be captured each year in SSA's processing for immediate updating of controls, and as a preliminary control for the next process year.

OIG Comment:

Although SSA agrees "in principle", comments in support of this "agreement" appear inconsistent. On the one hand, SSA says that "the present magnetic media master file is purged of inaccuracies and outdated material on an ongoing basis as they are identified". On the other hand "the present data base is a tape file created once a year".

Given the existence of the data base as a sequentially recorded tape file, there seems to be no way for this file to be purified of inaccuracies on an ongoing basis. Because of this, we recommended that this file be converted to a disk file so that it could in fact be updated on an ongoing basis as changes became necessary. The newly mandated "B" record, we believe, cannot in itself accomplish this function.

13. The function of keeping the magnetic media reporting data base current and accurate be assigned to ROB.

SSA Comment:

We do not concur. We clarified responsibilities for the regions, for OCRO (ROB), OSO, OSD, and OOPP regarding magnetic media master file accuracies, on May 28, 1981 by memorandum.

We expect this to resolve the outstanding problems and are monitoring closely to ensure that that is the case. Over time, we shall also be implementing software design changes and moving toward hardware improvements that will provide much more up-to-date control capabilities.

OIG Comment:

One of the problems with the annual wage reporting process, as pointed out in our report, was the usurping of responsibilities by SSA components not directly involved in the day-to-day operation. We fail to see how SSA will solve the outstanding problems of keeping a current and accurate data base by having a policy making component (OOPP) responsible for updating the data base (as indicated in the May 28, 1981, memorandum).

14. SSA consider the feasibility of maintaining the data base on-line to a CRT terminal system that provides real-time query and update capabilities.

SSA Comment:

We agree that such online capabilities are essential to a fully effective, efficient process. However, this is only part of the overall problem of controlling magnetic media themselves. Control and proper maintenance of the authorization file is a discrete process which must interface with the larger issue of the entire magnetic media control system.

In addition, these 7,000 magnetic reports are but a very small portion of the one-half million tapes SSA uses and controls. A change in the AWR tape control area could only be developed and justified in the larger context of a major systems redesign. Over the next several years, we expect SSA will be resolving the control problems in two ways -- by reducing the numbers of tapes by converting many areas to mass data storage, and by updating various ADP capabilities.

OIG Comment:

Although SSA agrees that online capabilities are essential to a fully effective, efficient process, they do not indicate whether such a system will be installed. Also, the additional comments have no relevance to the recommendation. The issue at hand is control and accuracy of the information submitted on the authorization form and maintained on the magnetic media reporting data base, not the physical control of the wage report.

RECEIPT AND CONTROL OF MAGNETIC TAPE

SSA was not prepared to accept, manage, and control the approximately 5,000 reels magnetic tapes received for 1978, the initial annual reporting period. The tape receipt system did not account for the number of tape reels received; the number of individual, separate, and distinct employers who submitted wage reports; or control, multiple reels of tape when each represented an independent file.

Thus, SSA could not accurately determine (i) what employer tapes had been received, (ii) whether employers authorized to submit tapes actually did so, or (iii) whether tapes that were received entered the processing system. Further, the control system made it appear that some tapes had not been received, when in fact they had been received and processed.

Control and Identification of Magnetic Tape Submittals

A tape library control number (TLCN) is electronically assigned on the basis of approved authorization requests. The TLCN was intended to identify each employer authorized to report on tape and enable the system to track and control the employers' wage data as it flowed through the processing system.

SSA issued 4,590 and 5,109 TLCNs to authorized employers for tax year 1978 and 1979 respectively. The number of TLCNs issued, however, did not represent the actual number of employers who filed annual wage reports. Employers were permitted some flexibility in how they reported.

For example: (i) each subsidiary company could report its own wage data on its own tape and under its own employer identification number (EIN); (ii) each subsidiary could send in its own tape, but report under the parent company's EIN; (iii) the parent company could report wage data for the subsidiaries on one tape file and under its own EIN; or (iv) the parent company (or one of the subsidiaries) could report for itself and the other entities as an agent or transmitter.

Also, data processing service bureaus and similar entities were allowed to send in wage data for numerous other (client) employers. Under this system, each employer's wage data was separately reported on one tape file submitted by the transmitter. A tape file could be reported on one or more reels of magnetic tape.

SSA's processing system was designed so that no tape could be accepted without a TLCN. The TLCN procedure was developed under the assumption that employers would report only one tape file, regardless of how many entities were on the tape, how many employees were reported, or how many reels of tape were submitted. The system was programmed to accept only one tape file per TLCN and to stop processing when it reached the end of the file. Employers were required to identify the end of the file with a specific record. This was necessary to let the computer know that the file was complete and the last reel processed.

Employers, however, did not always file their reports as expected. Generally, large employers with independent divisions or subsidiaries reported wage data on several reels of tape, each of which was an independent file. When these tapes were put into processing, the system accepted only the first tape but did not accept the others because the other files (tapes) did not have a TLCN.

We also noted instances where divisions or subsidiaries of larger companies who had been authorized to send in separate wage reports received only one TLCN because the reports were to be filed under one EIN, that of the parent company. Again the system accepted only the first complete file and rejected the others.

When tapes failed to process, the employer's wage report was delayed until SSA's sy[illegible] personnel could identify the cause of the problem and [illegible]elop a solution. In these instances, systems p[illegible]ad the computer list each tape to find out what ha[illegible]rded on it. Only then did SSA realize that each r[illegible] of [illegible] was a self-contained file complete in itself, [illegible]nd [illegible] of a larger multi-reel file.

The remaining tapes th[illegible] to be manually given separate TLCNs in orde[illegible] the computer to accept them. For tax year 1978 and 1979, there were 2,296 and 2,177 such manually assign[illegible] TLCNs.

Despite the difficulties encountered in this area, SSA did not modify its system. Consequently, whenever more than one reel of tape was received from an employer, each tape had to be listed to see whether it was part of a multi-reel file or a self-contained file.

The manual assignment of TLCNs to wage reports caused problems in the balancing operation. When errors were disclosed, the output from the system was sent to the Reconciliation Branch (ROB) of SSA's Office of Central Operations. The errors were resolved and the wage report was then put back into processing.

Since each TLCN was treated by the system as a separate case, and ROB distributed workload to its clerks on a case-by-case basis, the system output for each TLCN was given to a different balancing clerk. Thus, no one clerk had a complete picture of the employer's total wage report, and did not realize that other tapes were involved.

In some instances, affiliated divisions of one employer had been given separate TLCNs, but reported together on one tape file. The tape was accepted under the TLCN of the entity which transmitted the report. The TLCNs for the other associated entities were not used, since individual reports had not been received from them. This caused SSA's control system to indicate that wage reports were still due from these entities, even though their data had long since been received, accepted, and processed.

SSA also experienced difficulties with tapes sent in by employers who were not authorized to do so. In 1978, there were 623 such employers. In 1979, there were 683 employers; of these, 377 repeated from the previous year. Based on regional correspondence, we concluded that employers were either not contacted about filing an authorization request for 1979, or they were contacted and did submit the required authorization requests, which were (i) disapproved; (ii) approved, but not sent to the Data Operations Center (DOC) for keying; or (iii) lost by DOC in the keying process.

Tapes received from unauthorized employers must be given manually assigned TLCNs along with control cards and JCL cards. JCL cards could not always be prepared, however, because external labels were not displayed on the reels.

To determine the tape technical characteristics, SSA systems personnel had the computer try to read and list the tapes at various tracks and densities. Some tapes required from 7 to 9 such attempts before the technical characteristics could be determined.

This is a costly and time-consuming process. The attempts to read the tapes were made at irregular intervals as computer time became available. In the meantime, the tapes remained in the tape library or in the computer room. Consequently, several months elapsed before SSA could determine whether or not the tapes could be processed.

Comparable problems occurred when authorized employers sent in tapes without external labels. The labels were to show the tape technical characteristics on every reel of tape. When labels were missing, systems personnel made attempts to get the tapes to process before sending them back to the employer. We believe that whenever labels are missing, the employer should be contacted immediately for the tape characteristics. The employer should then be reminded, in writing, of his responsibility to affix an external label to every reel of tape.

Need for Additional Management Information

Whether or not an employer was authorized to report on magnetic tape, SSA's tape receipt system did not account for the number of individual, separate, and distinct employers, or the number of reels of tape received. Although the system keeps a count of the number of wage reports submitted, this is not representative of the number of employers who filed because employers often submit more than one wage report in a given year.

Knowing the number of employers who report on tape and the number of reels received is useful information. It can be used as a measure of workload and accomplishment and as a means of control to ensure that all tapes received were processed or otherwise accounted for.

The Manual Tape Acceptance Process

When tapes are received by SSA, tape library personnel look for the employer's EIN on their control log, which contains preprinted data from the authorization file. If they do not find it, or if the wage report was sent in by a service bureau, they looked for the transmitter's name and EIN.

If the EIN is on the control log, it means that the employer was authorized to report on magnetic tape. For these employers, control cards and JCL cards are pre-prepared electronically from information taken from the authorization file.

If the EIN is not on the control log, the tape is considered as having come from an unauthorized employer. In these instances, the punched cards are manually prepared from information taken either from the external tape label or by having the tape listed.

Regardless of how the two cards are prepared (electronically or manually), they must enter the system as a set in order for the tape to process and be properly tracked. Usually, the control card is entered through the system first. The JCL card and the tape is set aside until the tape is manually logged in as having been received. This has taken as long as three weeks. In the intervening period, the propriety of the control card that was previously entered may be questioned and an entirely new set of cards prepared; or the JCL cards and tape could be misassociated.

Problems occurred whenever new cards were prepared because the control card that was originally input was not cancelled. It remained in the system awaiting a tape. The tape balancing and control program (ERTABACO), which is used to trace the movement of wage data through the annual wage report process, made it appear as if the employer's tape was still in process when in fact it had long since been processed.

Since tape library personnel had been advised that the control log (and the related punched cards) contained all the data needed to identify authorized employers, they placed considerable reliance on these documents.

The log, however, contained inaccurate and incomplete data and was unsuitable for its intended purpose. If tape library personnel could not locate a card or identify an employer, new cards were prepared and identified as "unauthorized".

Tape library personnel had to depend largely on judgment and guesswork because written procedures were inadequate and were constantly supplemented by verbal instructions. This hindered the tape acceptance operation, especially during peak reporting periods, when hundreds of tapes arrived daily, creating a large backlogs. As backlogs increase, so does the pressure to clear the tapes out as quickly as possible. This, in turn, increases the chances of making errors that adversely affect tape acceptance.

Proposed Solution

ROB is SSA's operational component regarding annual wage reporting. ROB is responsible for the day-to-day problems of reviewing, correcting and reconciling wage reports submitted by employers on magnetic tape. ROB also maintains an employer control file. We believe therefore that ROB should be assigned the responsibility for accepting annual wage report tapes, determining the authorization status of employers, and of sending the tapes to processing. Also, to simplify the process of determining the authorization status of employers, and to facilitate ROB's efforts in this regard, SSA should improve the way in which tape library control numbers (TLCNs) are assigned.

Permanent TLCNs should be assigned to each authorized employer. The permanent TLCN should identify specific tape submittals by employers as authorized by SSA. With a suitable suffix, the permanent TLCN could also indicate the number of reels submitted. If this is done, the employer can be advised of his number, informed of the purpose it serves, and requested to appropriately identify tapes submitted. This should reduce the amount of guesswork governing the association of tapes with TLCNs.

In order for ROB to effectively accomplish the function of maintaining front-end control, we recommend that:

- An on-line CRT terminal system with real-time query and update capabilities be installed at ROB.
- Employers be requested to send tapes directly to ROB.
- The existing tape storage area, used by the Data Transcription Section (DTS) of SSA's Office of Central Records Operations, be shared and used for temporary storage of annual wage reporting tapes until ROB sends them to ADP for processing.

With an on-line system in place, the following automated programs can be accessed:

- The automated tape library control system (TLCS) -- records the receipt of individual reels of tape and identifies their locations.

- The tape balancing and control program (ERTABACO) -- identifies, tracks, and controls the employer's wage data through the processing system.
- The authorization request data file -- contains technical and administrative information about employers.

Once these programs are placed on line, ROB will be able to:

- Log tapes on the TLCS as they are received.
- Match the tape technical characteristics on the external label with the data on the authorization file to assure agreement.
- Compare the administrative data on the authorization file with the analogous information reported on the IRS Form 6559 (formerly IRS Form 4804). To assist ROB in making this comparions, insure that current data is received, and help prevent misrcuting and mismailing of sensitive wage data to the wrong people, the IRS should be requested to modify IRS Form 6559, to include, in lieu of Item 7, the following data on the authorization request form --
    - Item 16, Name and address of person to whom tape should be returned; and
    - Item 18, Name and address of person to whom copy of report should be sent (if requested).
- Determine whether the EINs identified on IRS Form 6560 (formerly IRS Form 4802, Multiple Payer Transmittal) agree with the EINs which the transmitter was approved to report, according to the authorization file.
- Verify that the number of tape reels sent in by employers agree with the number of tape reels reported on the IRS Form 6559.

Any uncorrectable differences noted when performing the above, should be resolved by ROB personnel through direct contact with the employers. Tapes should be held until correct information is obtained.

With the authorization file readily available via remote access data terminals, ROB personnel, after requesting confirmation of changes from the employer, will be able to make direct and immediate corrections to the information in the file. After all corrections are made, ROB personnel can input the control information and the number of EINs controlled by the TLCN to ERTABACO, and send the tape to ADP for processing.

This would eliminate the manual selection of pre-punched control cards and give ROB a means of tracking and monitoring the progress of tapes in processing. Thus, if there has been no action to process a tape after it has been sent to ADP or if the tape is delayed in ADP status, ROB will be aware of the condition and can question those responsible to ascertain the reason.

To expedite the imput of wage reports, we suggest the acquisition of a mini-computer to be used by ROB to process employer tapes through the initial balancing operation. This will enable ROB to input tapes directly to processing and to reconcile errors as they occur. Thus, only "clean" tapes, i.e., tapes that are in balance, error free, will be sent to ADP for input to the final balancing operation.

In the interim, or in the event a mini-computer is not acquired, the tapes, received in ROB could be batched and boxed and sent to ADP together with the JCL cards and other needed documents. Upon completion of processing, the tapes and related outputs would be returned to ROB for review, correction, and return to employers. To monitor the deliveries to ADP, controls should be established to keep track of which tapes and cards are sent to ADP and to indicate when and by whom they were received.

To enable ROB to effectively accomplish the above mentioned duties, sufficient resources should be made available. Also, the Office of Enumeration and Earnings Records (OEER) should provide ROB personnel with written comprehensive and definitive procedures and training on how to implement the revised procedures. Further, there should be interaction and cooperation between ROB and systems personnel, to include the furnishing of technical advice and assistance when necessary.

Recommendations

We recommended that:

1. The annual wage report processing system be modified so that when more than one reel of tape is submitted under one tape library control number (TLCN), and each reel is a self-contained data file, all tapes will be accepted for processing without the need for assigning additional TLCNs.

SSA Comment:

We have been evaulating all aspects of TLCN assignment; however, it is not as simple nor as straightforward as portrayed. The recommendation is infeasible because we do not receive all files (reports) from an employer at the same time, they are not in the "self-contained reel" format, nor are they received from just one location per employer, Applying it to the current magnetic media processes would degrade the present level of control, not improve it.

We believe the approach taken regarding the mandatory "B" authorization record mentioned in Part A above will eliminate much of the problem of reporter identities. This is because the preponderance of the problem has occurred where several different units of a large company submit separate reports from around the country, many times all under the same EIN. The "B" record is designed to provide precise/positive identifying information.

OIG Comment:

The TLCN was intended as a means of identifying each employer authorized to report on tape and of controlling and tracking each employer's wage data through the automated and manual processing systems at SSA. The current method of assigning TLCNs is, however, a complex and cumbersome procedure. Moreover, the way in which this process is applied reduces the degree of control and results in a loss of accountability, thus negating, we believe, the original objectives of the TLCN.

To effectively control and account for the receipt of wage reports on tape we recommended (See Recommendation #4) that every authorized employer be assigned a permanent TLCN, in a manner similar to the IRS practice of giving each employer his own permanent employer identification number (EIN). This will enable SSA to always associate a specific control number with a specific reporting entity, according to its approved authorization request.

We believe that adoption of the permanent TLCN concept, coupled with the proposal outlined in this Recommendation #1, will enhance, rather than diminish, the degree of control over employer tapes. Once the initial electronic balancing operation and the ERTABACO tracking and control program are modified to accept multiple self-contained data files under one TLCN, these systems will no longer be as susceptible to the kinds of problems which have led to the loss of accountability and control experienced in this area in the past.

Regarding the mandatory "B" authorization record mentioned in SSA's comments, we believe that this additional reporting requirement has little to do with effective tracking and control of wage reports. We consider it simplistic to believe that the "B" record could supplant the TLCN (which is still the primary means of control) or the authorization request (which is the basic source of identifying information).

2. When tapes without proper identifying labels are received from authorized employers, the employers be contacted to ascertain what the tape technical characteristics and other identifying data are, and whether they agree with the employer's approved authorization request. Also, when unauthorized tapes are received, the employer/transmitter be contacted to find out the tape technical and identifying data, and to ask the employer to send in an authorization request. In all cases where employers are contacted, confirmation should be requested and all actions documented in the employer folder for reference purposes.

SSA Comment:

The mandatory "B" authorization record will eliminate many of the problems these situations currently cause. We are also reviewing several aspects of this recommendation such as which component should make the contacts. Presently, receipt of unauthorized reports or receipt of mag media without proper documentation result in employer contact. We do not concur, however, that all contacts should occasion the filing of a document in the employer folder. This should be limited to those situations which affect the content of the report itself. The tape technical data will be updated to the authorization master file via the "B" record.

OIG Comment:

We cannot understand SSA's reasoning that the "B" authorization record will solve existing problems. In order to read the "B" record, the tape must be run; this is time-consuming and costly. The purpose of the identifying labels (per SSA's own procedures) is to determine whether the information on the labels agrees with the JCL cards which will be used to run the tape. As indicated in our report, more than half of the wage reports received were rejected from processing because the technical characteristics of tapes received were not in agreement with the related JCL. Matching of the label with the JCL (as reflected by the Magnetic Media Reporting Data Base) will preclude the need to run a tape to determine whether it will be acceptable to SSA's computers. Also in order to maintain a complete and viable record on each employer, it is necessary to keep a record of each contact, the purpose of the contact, and the subsequent resolution by the employer. We believe that, if it becomes necessary to contact an employer about a problem, it would be necessary to document the files to reflect the results of the contact.

3. The responsibility for accepting annual wage reports, determining whether the employers have been authorized to submit their reports on tape, and sending the tapes to processing, be assigned to the Reconciliation Branch (ROB) of SSA's Office of Central Records Operations.

SSA Comment:

We do not concur. The receipt and control of magnetic tapes in the Tape Library Control Section of OSO is an integral part of the computer processing system that cannot be arbitrarily assigned to another component. If ROB were assigned the responsibility for the initial receipt of the tapes, they would then have to be sent to the Tape Library Control Section in order to be entered into the established OSO processing system. In effect, this would add another manual handling step that must be done before the report can be processed by machine.

OIG Comment:

Although the Tape Library and Control Section may be an integral part of computer systems operations at SSA, the function performed by this section in annual wage report processing is, in fact, a clerical operation.

Assignment of the tape acceptance function to ROB would enable ROB to make certain that the tapes conform with the approved authorization requests. To make this process workable, we suggested, in Recommendations 5, 6, 7, and 8, that an on-line CRT terminal system with real-time query and update capabilities be installed for use in the tape acceptance function. Implementation of these recommendations could make ROB and efficient and effective integral part of the annual wage report process. In replying to our recommendation, SSA has not, in our opinion, demonstrated that ROB would be unable to handle a function for which, given the proper training and resources, this component would be well-suited.

4. Tape library control number be permanently assigned to employers and modified to indicate the number of reels sent in.

SSA Comment:

This is a portion of Recommendation #1, above. We believe our decision to require "B" records will moot much of the problem and the permanently assigned TLCN's would be unnecessary.

OIG Comment:

See our comments on Recommendation #1, above.

5. An on-line CRT terminal system with real-time query and update capabilities be installed at ROB for use in the tape acceptance process.

SSA Comment:

This recommendation is a repeat of Recommendation #14, Section II, answered above.

OIG Comment:

Although this recommendation is related to Recommendation #14 in Section II of this report, it is not, as SSA indicates, a repeat of that recommendation. In #14, we suggested the use of an on-line terminal system to update the Magnetic Media Reporting Data Base (employer master file of authorization request information). Here, we suggest using the terminal to control the receipt of tapes from the employers. Regardless, SSA is really not responsive to either recommendation, since they do not indicate whether an on-line system will in fact be installed.

6. Employers be requested to send all tapes directly to ROB.

SSA Comment:

See comments regarding Recommendation #3, above.

OIG Comment:

As previously mentioned, the functions of initially accepting employers' annual wage tapes are largely clerical in nature. As such, they can well be performed by any component having an interest in successful processing of the tapes. Implementation of this recommendation, together with our other recommendations, can significantly enhance the degree of front-end control over wage reports received on tapes.

7. The existing tape storage area currently used to house tapes used by the Data Transcription Section, Office of Central Records Operations, be shared and used to store employer tapes until they can be released by ROB to ADP for processing.

SSA Comment:

See comments regarding Recommendation #3, above.

OIG Comment:

This recommendation is predicated upon the implementation of the other recommendations in this section of our report. As indicated in the body of our report with the assignment of the tape acceptance function to ROB will also come the responsibility to compare the information on the employer master file (Magnetic Media Reporting Data Base) with the data recorded by the employer on the identifying labels attached to his tape reels, as well as with the information shown on his IRS Form 6559, which, by the way is currently not being done by anyone. The existing tape storage area will be needed for the temporary storage of these tapes until they pass the recommended front-end acceptance controls.

8. The following automated systems be placed on line to the CRT terminal system: (a) the tape library control system (TLCS); (b) the tape balancing and control program (ERTABACO); and (c) the authorization report data file (Magnetic Media Reporting Data Base - MMRDB).

SSA Comment:

See comments for Recommendation #14, in Section II.

OIG Comment:

In our report, we pointed out that, for best results, our recommendations concerning front-end control should be implemented as an aggregate, in their entirety. Thus, each recommendation is interdependent upon all the others, and each is conditioned on the acceptance and implementation of the one preceding it, in order to be fully effective.

Implementation of all of the recommendations relating to front-end control will put in place a reliable "total" system that will enable SSA to process annual wage reports promptly, efficiently, and economically.

9. The IRS Form 6559 (formerly IRS Form 4804) be modified to include, in lieu of Item 7 on that form, the names and addresses of persons to whom (a) the tape should be returned, and (b) copies of the report should be sent (if requested).

SSA Comment:

The requirement for the mandatory "B" record, which includes return address data, will provide much more up-to-date information in a more readily usable form for SSA's processing. With this requirement, the proposed change to Form 6559 becomes unnecessary.

OIG Comment:

The requirement for the mandatory "B" record will provide information that is only as good as what the employer is willing to put there. The IRS-6559, being a paper document, can be used as a back-up in instances where problems are encountered with the tapes.

Since, in the past, employers have not always responded well to SSA's requirements, we suggest that IRS be requested to modify its form as recommended. The changes advocated are elementary and could be of significant value in helping SSA return tapes to the right employers.

10. The on-line CRT terminal system be used to perform the following functions: (a) log in the tapes on the Tape Library Control System (TLCS), (b) match the tape technical characteristics on the external tape label with the technical data on the authorization requests and JCL cards, (c) verify the correctness of administrative data on the IRS Form 6559, (d) determine whether the EINs reported by transmitters agree with those authorized, and (e) verify the number of tape reels received with number of reels reported on IRS Form 6559.

SSA Comment:

See comments for Recommendation #14, Section II.

OIG Comment:

SSA's reply is not responsive to this recommendation. In Recommendation #14, which pertains to the Magnetic Media Reporting Data Base, SSA agrees that on-line capabilities are essential to a fully effective, efficient process; SSA does not, however, indicate whether or not this on-line capability will be installed.

11. Differences disclosed, if not correctable in-house be resolved by direct contact between ROB and the employers. All contacts should be documented for reference purposes.

SSA Comment:

The variants to tape acceptance are not within the technical capability of OCRO staffing. Presently any such report which cannot be "corrected" in-house is returned to the employer for correction and resubmittal. Documentation is currently added to the data base where appropriate.

OIG Comment:

This recommendation is basically intended to expedite, not retard, the tape acceptance process. We envision a mere visual comparison of technical and administrative data on the employer master authorization request file (Magnetic Media Reporting Data Base) with the analogous information shown by the employer on the identifying labels attached to his tape reels and recorded by him on the IRS Form 6559.

With the implementation of the preceding recommendations, this comparison would become a simple task for OCRO personnel. Differences which could not be "corrected" in-house could, through employer contacts, be resolved without the need (and attendant delay) of returning the report to the employer for correction and resubmittal.

12. When differences are resolved, direct and immediate corrections be made to the information in the authorization data base, control cards, and JCL cards.

SSA Comment:

The recent change in routing authorization changes to OOPP provides for immediate update of SSA's controls; however, the corrections to the control file are not applied instantaneously since present controls consist of manually prepared listings and cards, and batch updating of a tape master file. The development of an on-line control process would facilitate these changes as will the mandatory "B" record.

OIG Comment:

If we read SSA's reply correctly, a policy-making component (OOPP) will now be involved in both operational and systems functions. As stated by SSA, the on-line control process would facilitate changes to the authorization data base, control cards, and JCL cards; we do not understand how the routing of these changes to OOPP will assist in this improvement.

13. Tapes be input to the tape balancing and control program (ERTABACO) only after all verifications and/or corrections have been made and ROB personnel are assured of their acceptability.

SSA Comment:

We do not agree. The first activity undertaken by OSO is to establish control of the report on its inventory log and on the automated control (TABACO). To implement the recommendation would substitute clerical control for the automated control system in those cases where the report is not immediately processable. It is far preferable to establish an automated control over unprocessable reports or improper submittals and to later correct such entries than to depend solely on a clerical control mechanism.

The control processes have been substantially modified and greatly improved over that used for 1978 reports. With these improvements and the additional control categories provided, the immediate establishment of control provides management with readily usable information as to the health of this aspect of AWR processing. We do not agree to do without it.

OIG Comment:

This recommendation is a logical extension of the preceding recommendations. With the previously recommended on-line system and associated terminals in place, all entries and controls become automated, with immediate feedback on the status of each employer's tape. There would not be a substitution of clerical for automated controls, as indicated by SSA.

After all of the verifications and/or corrections have been made, and ROB personnel are assured of the acceptability of the tape as authorized, they would then input the appropriate control information to ERTABACO, and send the tape to ADP for processing. This procedure would greatly assist in reducing the number of errors in ERTABACO disclosed by our review.

Although SSA has made improvements over the system in use in 1978, a great deal more needs to be done, as indicated in our report to make the annual wage report process more efficient, effective and economical to manage.

14. The ERTABACO program be modified to provide counts of the number of individual, separate, and distinct employers, by EIN, whose wage reports were received at SSA, as well as the number of employers whose wage reports completed processing.

SSA Comment:

The TABACO program has been modified to provide some of the MI data indicated. It is not the function of the TABACO system however, to list all EINs and the related items processed. In the present systems design, these latter data are added to the "Report Employer List" (REL) and microfilm is provided from that source for operational reference to respond to queries regarding the processing of specific employer reports.

OIG Comment:

SSA's reply is not really responsive to our recommendation. The fact that it is not now a function of ERTABACO to provide counts of EINs and items processed does not mean that the system should not be modified to do so. SSA does not indicate why this cannot or should not be done.

As stated by SSA, the "REL" and related microfilm are used strictly as a reference source to respond to queries on specific employer reports, and do not readily provide information on how many employers (as opposed to which employers) filed annual wage reports on tape. Additionally, the microfilm is usually not available until months after the wage data is completed processing.

15. The ERTABACO program be modified to provide counts of the number of tape reels received, processed, and returned to employers.

SSA Comment:

We do not agree. These data are not presently captured in the TABACO system. The basis for TABACO control is TLCN and EIN. If there are 10 reels processed under one TLCN, there are no data within TABACO to summarize in such a manner. The "B" record requirement, however, will provide the basis for such data entry to TABACO where each is a separate file. Our experience over the most recent two years of processing indicates that such control is not necessary.

OIG Comment:

In our report, we indicated that, because this type of information was not being captured, tape reels were placed in the tape library without being processed, because the system did not know how many reels to expect. We believe that the effort involved to make the recommended changes is certainly small enough, compared to the potential usefulness of this information for control purposes. The "B" record appears to have little connection with the number of reels comprising an employer's wage report. We don't understand how this record will satisfy the intent of our recommendation.

16. Once the tapes are in process, ROB monitor their progress by means of status data provided by the ERTABACO program through the CRT terminals. If there are any delays, ROB should contact ADP to ascertain the reason and take action necessary to expedite the processing.

SSA Comment:

Presently, responsibilities rest upon OS or ROB, dependent on the "status" reflected on TABACO for each magnetic media report. This would continue to be true with or without online CRT devices.

OIG Comment:

ROB is the focal point for annual wage report processing at SSA. This is the component whose operations are most affected when tapes fail to process promptly and correctly. For this reason, and to vest complete accountability for operational functions in an operational component, we believe that ROB should exercise overall monitorship over the status of annual wage report tapes.

17. SSA consider expediting the processing of annual wage reports by dedicating a mini-computer which will enable ROB to input employer tapes directly to the initial balancing operation. As an interim measure, or in the event that the mini-computer is not acquired, SSA should consider having ROB batch and box the tapes, and send them to ADP together with the JCL cards and other needed documents. On completion of processing, tapes and related outputs should be returned to ROB for review, correction, and return to employers.

SSA Comment:

We believe that the recommendation merits study. However, the current initial balancing run uses large scale mainframe computers, not mini-computers. It would be necessary to justify the establishment of computer processing capability in another site centrally. That justification would be more difficult in that it would not be utilized year-around because of the seasonal nature of AWR.

We have already commented on the second part of this recommendation (ROB receive and batch the tapes) in #6 above.

OIG Comment:

SSA has expressed the opinion that the recommendation merits study. We believe that adequate study of this area would show that a large-scale mainframe would not be necessary to handle the initial balancing operation.

We also believe that mini-computer capability could well be justified as a means of enhancing the overall degree of control over the processing of, and accounting for, the millions of employee annual wage items reported on tape.

We have previously commented on the need for accurate and effective front-end controls at ROB. If SSA accepts and implements our previous recommendations in this area, the second proposition of this recommendation would almost certainly be brought into play, regardless of whether or not a mini-computer is installed.

18. SSA make available the resources and assistance necessary to permit ROB to effectively carry out its added responsibilities and expanded functions. This is to include (a) comprehensive and definitive procedures, (b) training in new concepts and techniques, and (c) advice, guidance, and assistance from systems personnel when required.

SSA Comment:

We do not agree with the basic concept of ROB responsibilities as set out in the IG report, given the present magnetic media control system and available resources.

Comments provided in Recommendation #14, Section II and Recommendations #3, 11, and 16, Section III also respond to this proposal.

OIG Comment:

Throughout our report, we have demonstrated a basic need for SSA to change its present mode of operations. We are certain that ROB -- the operational component in the triad -- is the organization best suited to handle what is basically an operational function.

Although disagreeing with this premise, SSA has not clearly and logically explained its opposition to having ROB perform the duties outlined in our report. In the long run we are sure that it would be in SSA's best interests to have each component function within its own sphere of expertise.

AUTOMATED PROCESSING OF ANNUAL WAGE REPORTS

To ensure quick and accurate processing of wage reports, SSA developed a series of computer programs to edit for data inconsistencies and discrepancies, compare detail data to summary data, incorporate clerical adjustments, and prepare various outputs. Processing, however, was neither quick nor accurate because (i) tapes had to be modified to enter the system; (ii) malfunctioning programs delayed clerical correction of errors; (iii) ineffective programming necessitated repeated processing of tapes through certain parts of the system, and overwhelmed the review process; and (iv) automated controls were insufficient to permit effective monitorship.

For the tax years 1978 and 1979, SSA made repeated attempts to get "problem" employer tapes to process. Programmers spent months experimenting, testing, and developing specialized computer programs to rearrange data formats, bypass missing or unreadable data, separate data records, and otherwise compensate for various inconsistencies or incompatibilities on certain tapes. This practice not only consumed scarce computer time and other valuable resources, but caused, on the one hand, wages to go unprocessed and, on the other hand, wages to get posted two or more times.

The initial balancing operation is performed by a program known as EABEAR (Employer Accounts Balance Employer Annual Reports). This program edits for invalid data fields, inconsistencies, and discrepancies. It also sums up the individual employee wage items and compares them to the grand totals recorded on the tape.

If everything is all right, the wage report goes into the final balancing operation. If not, the wage report is clerically corrected and re-input to final balancing operations. The final balancing operation is performed by a program known as EAFINBAL. This program makes the corrections, rebalances and re-edits the tapes.

Programmer Efforts to Process Problem Tapes

Tapes should process through the initial balancing operation quickly and easily. However, when tapes do not, the computer generates a print-out that something is wrong.

As part of our review, we wanted to see what kinds of problems had been encountered by SSA, determine how they were resolved, and find out how long it took to either process the tapes or return them to the employers for resubmittal. We examined 76 tax year 1978 tapes for which documentation was available, and found that they generally failed the initial balancing operations for the following reasons:

Analysis of Tape Problems - Tax Year 1978

Problem	Number of Occurrences	Percent
Tape/Record/Data Formats 1/	49	64
Coding 2/	8	11
Read Errors 3/	7	9
Incompatible Data/ Tape 4/	6	8
Other 5/	6	8
Total	76	100%

1/ Tape/Record/Data Formats

To be acceptable to SSA's computers, employer tapes must be recorded in a specified format. Problems occur when employers deviate from what has been specified by SSA, i.e., when tapes do not contain the required information, when the information is not in the specified format, or when the length of a record, or of an element of data within a record, exceeds allowable specifications.

2/ Coding

SSA's computers require specific data elements to be recorded in a specified manner. For example, Social

Security numbers should not contain hyphens, and data fields that contain no information should be filled with characters representing blank spaces. Coding problems are those that occur when employers do not follow SSA's guidelines, i.e., when hyphens are included in the Social Security number field, or when zeros are used to fill "empty" data fields.

3/ Read Errors

"Read errors" result when information recorded on a tape cannot be read by the computer because it is obscured by dirt or other foreign matter, or by physical damage to the tape surface.

4/ Incompatible Data/Tape

There have been many recording codes or techniques developed by computer manufacturers to inscribe data on tape. Each employer's annual wage tape is written in the code used by the computer that created the tape. SSA has the capability, either built into its computers or through programs that can translate one recording code to another, to process the tapes of many different makes of computers. There are some computers, however, whose tapes SSA cannot process.

5/ Other

Included here are problems involving inaccurate, improper, or missing internal tape identification labels, miscellaneous problems too few in number to categorize separately, and cases where we could not specifically identify a particular problem causing the tape to fail the initial balancing operation.

To determine how long these tapes were in process, we obtained listings generated by the Employer Report Tape Balancing and Control (ERTABACO) Program, which is used to track wage data as it goes through each step of the processing operations.

For 43 of the 76 tapes, ERTABACO did not show the date the tapes were received. We, therefore, limited our review to the remaining 33 tapes.

Ten of the 33 tapes had completed processing, while 23 were still in process. Tapes that completed processing had been at SSA for periods ranging from 36 to 221 days, with an average stay of 125 days. As of October 10, 1979, the 23 tapes still in process had been at SSA for periods ranging as long as 253 days, with an average stay of 183 days.

By January 26, 1981, 18 of the 23 tapes that had been in pending status on October 10, 1979, had completed processing. These 18 tapes had been at SSA for an average period of 424 days, with some ranging as long as 701 days. The remaining five tapes were still "in process" as of April 27, 1981, at which date they had been at SSA for an average of 758 days, with some as long as 817 days. The tapes still in process represent six employers with more than 52,000 employees and wages amounting to nearly $76 million.

Since we were able to review only 33 cases for tax year 1978, we extended our review to cover 137, tax year 1979 employer tapes. These represented problem cases that required investigation and action by the programmers to get the wage reports to process. We concluded that some error categories declined slightly, compared to the tax year 1978, however, the more significant problem areas increased, as indicated by the following schedule:

Analysis of Tape Problems - Tax Year 1979

Problem	Number of Occurrences	Percent
Tape/Record/ Data Formats	97	71
Coding	8	6
Read Errors	18	13
Incompatible Data/Tape	9	6
Other	5	4
Total	137	100%

As of November 25, 1980, SSA's programmers were able to process 43 percent (59 out of 137) of the problem tapes, but only after they had been at SSA for up to 292 days.

Despite the time and effort expended by SSA's programmers to correct the conditions that prevented the problem tapes from processing, 66 (48 percent) of the 1979 tapes reviewed had to eventually be returned to the employers for resubmittal. Returned tapes remained at SSA for an average of 132 days, with some tapes ranging up to 264 days before the decision was made that the tape could not be processed. The remaining 12 tapes were still in process at November 25, 1980.

The reason it took so long to process these tapes was because many tapes were accepted by SSA even though they were not fully compatible with in-house computers. Consequently, a great deal of computer time and programming effort was expended to get these problem tapes to process.

Because programmers did not always adequately document their actions, we could not tell how many attempts were made to make the corrections and what kind of action was taken to resolve the problem.

If adequate documentation were maintained, programmers could more effectively account for their time. Statistical trends, studies, and evaluations could be made with an aim to improving the overall quality of annual wage reporting on magnetic tape. From available documentation, we were able to determine that programmers attempted to run some problem tapes as many as eight times before a decision could be reached as to whether or not they could be processed.

To reduce the number of tapes that would normally be rejected from processing, programmers were instructed to skip over read errors, rearrange data formats, separate data records, and otherwise compensate for missing data.

While these instructions may have increased the number of tapes accepted, they had adverse side effects. For example, when read errors are skipped, the related employee wage records are skipped. This not only creates clerical reconciliation and balancing problems but, more importantly, precludes the posting of the skipped wage items to the earnings records.

The number of problem tapes, as well as the attendant programming effort and processing delays, could be significantly reduced if SSA would modify its policy regarding the specifications and characteristics of tapes that are accepted for processing. Although SSA has set up specific requirements regarding the manner in which employer tapes are to be recorded and formatted, they are not enforced.

In fact, employers were told by SSA that tapes recorded in "any other compatible configurations commonly in use are also acceptable". And that "every effort will be made to convert and process non-compatible tapes". This, in our opinion, leaves the employers with the impression that SSA will accept tape no matter what the configuration.

Considering that the bulk of the tape problems involved format errors, we believe that SSA should inform employers as to what is required, and emphasize the importance of acceptable formats. SSA should then insist on compliance with its requirements. If tapes received are not at an acceptable level of quality, and cannot be corrected with a minimum of effort, they should be returned to the employers for correction and resubmittal.

To avoid making judgmental decisions on problem tapes, programmers should be given explicit, written instructions and procedures, clearly describing which types of problem tapes should be rejected with no attempt made at correction, which tape problems they should try to correct and the level of effort to be expended, so that a decision can be made on a consistent basis as to when to return the tapes to the employer for resubmittal.

Problems in Processing High-Density Tapes

The computer complex on which wage data are processed does not have the capability to handle tapes recorded at high densities. For tax year 1979, nearly 1,000 high-density tapes were received by SSA. These tapes had to pass through a series of lengthy, redundant, and time-consuming operations in order to process. As a result, the processing of annual wage reports was slowed, the posting of employee earnings to the Summary Earnings Records was delayed, and the tapes themselves were handled more than necessary and were subjected to the risks of being damaged, misplaced, lost, or set aside for long periods.

The computer complex used to process annual wage reports had the capability to process tapes recorded at densities up to 1600 bits per inch (BPI). Provisions were not made to handle the high-density 6250-BPI tapes on this complex.

In 1979, 6250-BPI tapes were taken to a different computer complex, unassociated with annual wage reporting, where they were duplicated and converted to 1600 BPI. The duplicated versions were then sent back to the annual wage reporting computer complex to be processed. The computer complex that handled the conversion of 6250 BPI tapes was assigned a very heavy workload. Computer time was at a premium, and was not readily available for the relatively prosaic work of tape duplication and conversion. Had the proper equipment been available in the annual wage reporting complex, these tapes could have been processed through initial balancing in the time that was required to duplicate and convert them.

To solve the problem of processing 6250 BPI tapes, beginning in February 1980 for tax year 1979, SSA duplicated the initial balancing program (EABEAR) and established it in the 6250-BPI computer complex. While this eliminated the need to duplicate and convert the tapes, it created another problem more serious than the first.

The annual wage reporting system that resides in the regular computer complex includes a data file in which control information is accumulated. This information is needed to update ERTABACO, the program that tracks the progress of wage report data through the system. When tapes are processed through the 6250-BPI computer complex, the information that would normally flow to the data file is placed on a disk. Information on the disk is subsequently transferred to a tape which in turn is used to update the control information data file.

The problem occurs when the disk is full of data. At this point, the computer prints out a message on the console typewriter alerting the operator to the "disk-full" condition. Operators are instructed, per procedures, to transfer the data to a tape, so that disk space may be made available for additional information. The operators, however, at times ignored the computer alerts. Processing did not stop when this condition occurred because the initial balancing program (EABEAR) operates completely independently of the utility program which accumulates the control data on the disk. The overflow from the disk was lost, simply because no temporary storage space was available to accommodate it. As a result, the ERTABACO program, which tracks the progress of employers' wage data through the various steps in the processing system, could not be updated to show the actual status of the wage reports whose control data were lost. The status listings produced by ERTABACO indicated that these wage reports had not entered initial balancing, when in fact they had completed it.

This condition continues to affect the processing of high-density tapes. During the period March 16-23, 1981, there were at least 49 wage reports for tax year 1980 whose control data were lost because computer operators disregarded warning messages that the disk pack was full and could not accept any more data.

Additional problems resulted from the dual establishment of initial balancing capability on two different computer complexes. These problems occurred because high-density tapes were not always identified as such by employers or were misrouted by tape library personnel to the wrong computer complex.

When tapes are not externally labeled by the employer to show the density at which they are recorded, they have to be tested to determine their density, so that they can be put into processing. The testing procedure is a relatively simple one, but it consumes valuable time, effort, and computer resources, delays the processing of the tapes involved, and subjects them to a great deal more handling than would normally be necessary.

For each attempt that is made to list the tape, new job control language (JCL) cards and a job run request form must be prepared. After each failed attempt, a programmer must be called in to examine the system output, determine whether another attempt should be made, and prepare the necessary JCL cards. During this lengthly process, (at least 24 hours for each attempt), the tape is repeatedly mounted on the tape drive and demounted, subjecting it to possible damage due to excessive handling.

In addition, every time the tape is set aside for the programmer's inspection, it runs the risk of being inadvertently returned to the tape library and placed in the vault. Once in the vault, the tape may be forgotten.

This actually occurred to a wage report submitted by a large employer for tax year 1978. The wage report, comprising 15 reels of tape for 325,000 employees with $4.6 billion in wages was submitted on April 24, 1979. The tapes, recorded at 6250 BPI, were misrouted to the regular computer complex, where they failed to enter the initial balancing operation. Rather than rerouting the 15 reels to the 6250-BPI computer complex, tape library personnel placed them in the vault. The tapes were eventually rediscovered, put into processing, and completed final balancing operation in December 1980. Wage data for the individual employees were not posted until early 1981, two years after the wage reports were submitted to SSA.

SSA should reassess its policy of providing dual capability for the initial balancing operation on two separate computer complexes and, instead, consider installing 6250-BPI processing capability in one complex. Thus, SSA can avoid delays, eliminate excessive tape handling, and reduce the risk of loss or physical damange to employers' tapes. Also, SSA can monitor and track the flow of all wage report data as it goes through the processing system.

Problems in the Final Balancing Operation

For tax year 1978, final balancing operations were carried out by a computer program known as EAFETCH (Employer Accounts Final Employer Tape Correction Handling). EAFETCH was geared toward editing and balancing individual wage reports on a tape, rather than processing the entire tape as whole. Thus, the final balancing operations tended to fragment tapes that had previously passed the initial balancing operation.

For example, a company reported for itself and nine others on one tape. Each employer's data was reported separately, for a total of ten distinct employers.

As the tape passed through the initial balancing operations, the ten individual employers' wage reports were processed together as one submittal.

When this tape reached final balancing, the EAFETCH program re-edited and rebalanced the data on the tape, and applied any corrections developed in the clerical reconciliation process. During this operation, each of the individual wage reports on the tape was processed separately. If all ten of the reports were in balance, there was no problem.

If, however, one or more of the wage reports was out-of-balance, the EAFETCH program would release the in-balance reports as "completed". Thus, the data pertaining to the "in-balance" reports were separated, for processing purposes, from the data pertaining to the "out-of-balance" reports.

The out-of-balance reports were sent back through the clerical reconciliation process. After the differences were resolved, they were re-input to the EAFETCH program.

To re-input the corrected reports, SSA had to use the same tape that had been previously passed through EAFETCH. This tape, however, contained the previously "completed" segments as well as those that had been out of balance and were now being re-input. Since the completed segments had previously been processed and accepted by EAFETCH, they were now identified as potential duplicates.

For tax year 1978 there were about 25,000 wage reports identified by the system as potential duplicates awaiting investigative review to determine whether they should be deleted from processing.

SSA investigated 3,300 of these 25,000 cases and found that about 99 percent of them were exact duplicates. The relatively small number (one percent) of reports that were not exact duplicates prompted a decision to remove the remaining 21,700 presumed duplicate wage reports from processing without further investigation. To discover and restore any wage items that may have been incorrectly deleted, SSA intended to depend on the forthcoming IRS reconciliation. Because of funding limitations, however, IRS does not intend to carry out its full share of the reconciliation process, and has so informed SSA. Incorrectly deleted wage items will therefore be lost and not be posted to the earnings records of the individual employees involved.

In addition to falsely identifying potential duplicates, the EAFETCH program had other problems. Transactions included in one day's input would be rejected, while the same transactions, unaltered, would be accepted the next day.

The need for clerical personnel to repeatedly re-input corrections, balancing data, and other transactions, slowed the overall processing, to the point where, as of August 1979, there was a backlog of seven million items awaiting clerical review and investigation.

To correct these system problems, and help reduce the increasing clerical backlogs, SSA's programmers applied interim measures, what was termed "band-aid reprogramming" that not only failed to improve the workings of the EAFETCH program but instead created more problems.

For example, in June 1979, SSA developed two new programs to improve the final balancing operations and expedite processing.

The balancing and editing functions were assumed by the EATCORR (Employer Accounts Tape Correction and Refinement) program. EATCORR edited the corrections, applied them to the wage data, and balanced the money fields.

The duplicate detection function was assigned to a program known as EACATCH. This program was to detect and "catch" potential duplicate reports. With its primary functions taken over by two new programs, EAFETCH was used only to create five tape files for later use and to print related listings.

The new programs, however, did not fully accomplish their intended goals -- to expedite tape processing and improve final balancing operations. The EAFETCH program could handle as many as 30 tapes in one run in a batch processing mode; EATCORR, however, could process only one tape at a time. This tended to slow down the overall processing of tapes, because every out-of-balance tape now had to be processed at least twice -- once through EATCORR, and once through either EAFETCH (if the tape had not previously been through final balancing) or EACATCH (if the tape had been through EAFETCH at least once).

Operations were further hampered because clerical procedures for handling rejected items were inadequate, inconsistent, or unavailable. The processing of potential duplicates was expected to be an "exception" operation that would occur only infrequently. Instead, the "exceptions" were received on a continuing basis from the final balancing operation. Rather than developing comprehensive written procedures, SSA instead attempted to cope with the large numbers of rejects by having the programmers issue verbal ad hoc instructions. These instructions were neither definitive nor comprehensive, and had to be augmented, modified, or rescinded on a day-to-day, trial-and-error, basis.

To meet production quotas, SSA's programmers were instructed to suspend for a time the duplicate detection function in final balancing. While this action permitted wage reports to be processed faster, it also permitted duplicate wage items to pass through the system and into the earnings record posting operation.

Our review of 149 sampled cases showed that FICA wages of $133 million for 47,023 employees of nine employers had been posted twice to the Summary Earning Records, and additional wages of $439 thousand for 13,600 employees of one employer had been posted to the Summary Earnings Records three times. According to SSA, there are about 1.4 million and 688,000 duplicate postings for 1978 and 1979 respectively (made up of both paper and tape submissions) requiring manual correction. The value of these duplicate postings is valued to be about $8.1 billion and $3.6 billion respectively.

The importance of expeditiously resolving the duplicate posting situation was expressed by one of SSA's Regional Commissioners, who indicated that "...the problem is of greater magnitude than the 1.4 million records..." and voiced concern that "...duplicate postings represent serious public relations problems for SSA." These public relations problems were identified as resulting from (i) employers receiving IRS notices about discrepancies caused by SSA's processing; (ii) adverse comments from IRS and the public about SSA's processing; and (iii) audits by IRS of employees who appear to have paid only part of their tax liabilities due to SSA's double postings.

Because of the high volume of potential duplicate postings (1.4 million) that have to be investigated and reviewed, SSA may consider handling these entries in the same manner as the previously mentioned 25,000 potential duplicate wage reports -- to write them off without an investigation to determine whether they were in fact duplicates or contained valid wage item.

If SSA's assumption that the 25,000 potential duplicate wage reports contained one percent nonduplicate items holds true, for the 1.4 million presumed duplicate posted wage items, there would be about 14,000 individual employees adversely affected by a wholesale deletion of these postings. SSA officials have informed us, however, that they believe about 15 percent of the 1.4 million postings are nonduplicate items. If this is the case, then as many as 210,000 individual employees may lose valid wage credits should SSA take similar precipitant action with regard to these postings as it did with the 25,000 potentially duplicate wage reports.

We believe that SSA should review all 1.4 million postings to determine whether to delete or keep them on the earnings records, and that this be done as quickly as possible. Duplicate wage items will unless corrected, overstate future benefit payments, and may overstate annual wage determinations that in turn affect current benefits and eligibility. In addition, the 1978 final adjustment between the trust funds and general revenues cannot be accurately determined until after the duplicates are resolved.

In October 1979, EAFETCH, EACATCH, and EATCORR were replaced with newly developed programs. The new programs perform the same basic tasks as EAFETCH and its related programs but under a different concept. Rather than fragmenting the employers' tape submittals, the new programs do not release wage data for any one employer until the wage reports of all employers on the tape have been edited, corrected, and balanced.

Although the new final balancing programs seem to be operating satisfactorily, there is still a need for documentation of how the system operates and what each computer program is supposed to do. Without documentation, it is not possible to readily ascertain the current state of development of a computer program, its present capabilities, or when and by whom any changes were made. For example, we asked systems personnel for specific information as to what changes were made to which portions of the programs and requested details and documentation on exactly what improvements had been incorporated into the new programs. Neither the programmer who originally developed the programs, nor the programmer who had custody of them at the time, could give us the information requested. They informed us that changes were made and programs developed based largely on verbal instructions, and that they did not document their efforts.

Problems in Controlling and Accounting for Annual Wage Data

SSA could not adequately track or control the processing of wage reports because the Earnings Reports Tape Balancing Control (ERTABACO) program did not generate accurate status reports and was not always updated to reflect the receipt of wage reports.

Our review of 149 cases for tax year 1978 showed that $47 million in FICA wages for at least 8,750 employees of three employers had not been posted to the earnings records as of January 14, 1981, even though they were shown as having been processed and considered "completed" by ERTABACO. Conversely, 45 out of 55 other wage reports reviewed were shown as "in process", when in fact they had been completed and posted. In addition, five other employers involving more than 4,000 employees and nearly $31 million in wages had not even been picked up by the ERTABACO program as having been received by SSA and will therefore not be processed.

The 1978 version of ERTABACO showed the status of wage data at three points in the processing: "EDP", "ROB", or "Complete". The "EDP" designation denoted that a tape had been received, The "ROB" designation meant that the wage data had processed through initial balancing and was undergoing clerical review. The "Complete" designation indicated that the wage report had successfully completed the final balancing process.

The current (1979) version of ERTABACO shows the status of wage data at four points in the processing: "EDP", "EABEAR", "EAFINBAL", and "Complete". The "EDP" status designation shows that a tape has been received. The "EABEAR" designation shows a tape as input and/or completed the initial balancing operation. One cannot tell, however, whether a wage report is still in "EABEAR" or in ROB being reviewed. The "EAFINBAL" designation shows the wage data as being in the final balancing operation. The "Complete" designation shows that the wage reports have processed through the final balancing operations and were forwarded to the validation process.

The ERTABACO also provides two ancillary designations to indicate: tapes that have been "Returned" to the employer for resubmittal; and an "R" for tapes that have been resubmitted by employers and input to the initial balancing operation.

Although the revised version of ERTABACO is considerably improved over the original version, we believe that additional tracking and status data information are needed to enable management to better monitor the processing of wage reports.

For example, when tapes do not pass the initial edit process, SSA's programmers can, at times, cause the tapes to be accepted. To do this may take a considerable amount of time and may require several attempts to get the the tapes accepted. No record is maintained, however, on the amount of time or the number of attempts it took to get the tape to process. If such records were maintained, SSA could develop statistics, trends, and other data on the severity of the problems encountered. With this kind of information, SSA can make more informed decisions as to whether or not it is justified to continue to accept and modify problem tapes.

Although the modified version of ERTABACO identifies tapes returned for correction and resubmittal, and notes the dates of return to the employer, this information is overlaid by new status data when the resubmitted tape is re-input to, and successfully passes, the EABEAR edits. A record of statistical data as to when the initial tape was received and when it was returned to the employer for correction and resubmittal is no longer available.

Also, the date resubmitted tapes were received by SSA is not recorded. This is because when the tape is re-input to the system, it is re-input to the initial balancing program, "EABEAR", rather than to "EDP" status. For purposes of historical accuracy and better control, a new employer control card should be input to the system to show the date the tape was received.

Another problem with ERTABACO is that an accurate count of how long it takes a wage report to go from one status point to another until completion is not always maintained. The elapsed time counter operates by recording the Julian day on which a tape enters a particular status point. The overall age is accumulated as the total number of days from date of receipt to date of completion. If a wage report is processed to completion within one year or less, the elapsed time counter is accurate. However, if it takes longer than a year, ERTABACO will not account for the prior years' elapsed time.

SSA needs to improve the ERTABACO system and convert it to an on-line operation, so that the status data needed for effective monitorship is always available. Any changes in status of any tape could be observed promptly and immediate action taken to expedite processing before delays became excessive.

Recommendations

We recommended that:

1. Programmers document all actions taken to resolve tape problems. Documentation should show (i) the date of initial rejection of the tape by the computer; (ii) the date of initial review of the failed tape by the programmer; (iii) the dates and types of corrections that were made relatively quickly "on the system" (JCL changes and similar actions); and (iv) the dates and types of corrections requiring more extensive effort and/or several attempts to the computer to enable the tape to be accepted.

SSA Comment:

We agree. The documentation of problem tape reports has been initiated as a standard procedure.

2. In addition to maintaining their own copies of documentation pertaining to resolution of tape problems, programmers should send copies to the Reconciliation Branch, Office of Central Operations, for inclusion in the employers' folders, and to the Office of Enumeration and Earnings Records to be used as statistical data in developing trends, studies, and evaluations aimed at encouraging employers to improve the overall quality of annual wage reporting on tape.

SSA Comment:

Copies of the problem documentation are furnished to OEER, but since the technical aspects of computer processing have no bearing on report content which relates to ROB responsibilities, no copy is provided to ROB.

OIG Comment:

While the technical aspects of computer processing may have little bearing on report content, ROB is still the focal point for annual wage report processing. In the interest of maintaining a centralized repository of any and all data pertaining to each employer (to include all aspects of wage reporting) we believe that ROB (where the central employer folders are maintained) should receive the copies of documented programmer actions, to be filed in those folders.

3. Programmers be instructed to discontinue the practice of skipping read errors in their attempts to make problem tapes acceptable to the computer. Tapes containing unreadable areas should be returned to the employer for resubmittal.

SSA Comment:

SSA uses standard tape reading procedures -- this does include displaying the read error and identifying it for ROB resolution. However, there are also limits to the number of attempts, number of errors encountered, etc. In the latter instance, the reports are returned for resubmittal. The documentation and the balancing process assure the integrity of the process and guarantee that no records are lost through this practice.

OIG Comment:

We consider SSA's reply to be not responsive to our recommendation. The use of standard tape reading procedures may be a valid concept. This concept, however, is of little value when the "standard procedures" are not applied. If a read error is skipped, it can not be displayed or identified, and the integrity of the process cannot be guaranteed.

4. SSA reappraise its policies and attitudes concerning the acceptance of employers' annual wage tapes. SSA should no longer make "every effort...to convert and process non-compatible tapes". Instead, based on the experience gained in three years of processing these tapes, SSA should provide the employer with specific guidelines on what is acceptable in the way of formats, recording methods, and other tape technical characteristics. The employers should be clearly informed of the necessity for having their tapes meet the established standards, and of the adverse effects on processing when tapes do not meet the standards. Having done this, SSA should then enforce its standards, and promptly return all tapes that do not meet these requirements.

SSA Comment:

We agree. We discontinued the "tinkering" to attempt to process with TY 1980; and we notified the cartridge and cassette (potential) reporters that for tax year 1981 and later, we will no longer accept these mag media types. The Technical Information Bulletins are being revised and will contain specific details on what is acceptable.

Tape reports approved for submittal are expected to meet the established reporting specifications. Failure to meet the reporting specifications is sufficient cause to return the report to the employer for correction and resubmittal.

5. Programmers responsible for correcting problems on employer tapes be given explicit written instructions and procedures by SSA's Office of Operational Policy and Procedures (OOPP) clearly describing which types of problem tapes should be rejected with no attempt at correction, which types of problems merit attempts at correction, and the level of effort to be expended, so that decisions as to when to return tapes to the employers can be made on a consistent basis.

SSA Comment:

We agree. OOPP is providing clarification that the programmers should be dealing only with density/ADP language issues now; not formatting changes, etc., unless by special OOPP request.

6. The computer complex set aside for processing annual wage reports be provided the capability to handle all densities of tapes used to record annual wage data, including 6250 BPI.

SSA Comment:

We agree. OS is taking the appropriate action to provide 6250 density tape drive capability.

7. The computer programs comprising the annual wage report processing system be flow-charted and completely documented so that SSA can effectively monitor, operate, maintain, and revise the system as necessary.

SSA Comment:

We agree, and OS will be initiating this documentation activity across all systems, not just CAWR.

8. The duplicate detection function in the annual wage report processing system not be suspended under any circumstances.

SSA Comment:

We agree with the concept; however, it may be necessary in extremely limited situations to do so. It will only be done where full documentation and full concurrence of management, in OS, OCRO, and OEER are secured in advance.

9. None of the 1.4 million potential duplicate postings be written off without first being reviewed. Also, SSA should assign the necessary resources to this task, so that immediate action may be taken to expeditiously review each of these cases to assure that all postings deleted are in fact duplicates, and that all postings retained are in fact valid wage items.

SSA Comment:

SSA has been doing the appropriate review and initial processing of internal adjustments for tax year 1978 since early 1981, including duplicate postings and IRS-initiated adjustments. These corrections will flow into the posting operation beginning in early 1982. The SSA budget request, submitted last month to OMB, included adequate resources for FY 82 and FY 83 to review and correct these items. However, we have no guarantee that this resource request will be approved.

In addition, further automated techniques are being considered toward eliminating, in future years, many processed duplicates and, thus, forestalling the need to clerically investigate possible duplicate situations caused by multiple employer reports.

10. The ERTABACO program identify those employer tapes whose annual wage data successfully passed the initial balancing operation and are ready for clerical review and balancing.

SSA Comment:

TABACO indicates such situations via its "EABEAR" status. We are exploring additional refinements to this status indicator.

OIG Comment:

As pointed out in our report, "EABEAR" status indicates only that a tape has been input to and/or has completed the initial balancing operation. It does not, however, show a completion date, and does not differentiate between those tapes that are still in "EABEAR" and those that are in ROB being reviewed.

11. Tapes requiring more than one attempt to pass the initial edit process (EABEAR) be identified on ERTABACO, together with a count of the number of such attempts required (if the tape has passed the edits) or made to date (if the tape has not successfully passed the edits).

SSA Comment:

Based on our experience for 1979 and 1980, we see only minimal benefit from implementation of this recommendation. These data would have to be entered into TABACO clerically to record these attempts.

OIG Comment:

Since records were not maintained on the number of programmers' attempts to get tapes to process, we are at a loss to understand how SSA can view as "minimal" the benefit to be derived from implementing the recommended accountability feature.

Although programmers currently maintain some manual records in this area, the information they contain is inconsistently recorded and is not readily available for easy review. Automation of this process (by programming ERTABACO to update a counter each time the tape in question is mounted on the tape drive) will permit the system to maintain a count. This information thus obtained will allow SSA to make decisions based on facts rather than on programmers' recall.

12. When resubmitted tapes (tapes that had previously been returned to the employers and corrected) are re-input to the system, the previous historical status data concerning these tapes (to include original dates in "EDP, EABEAR", and "RETURNED" status) not be removed from the ERTABACO control listings. This information should be used by management for historical review and monitoring purposes.

SSA Comment:

Based on our 1979 and 1980 experience, we do not see any useful purpose to be served by implementing the recommendation. We have clarified the role of the region in assuring that resubmittal reports are received, either via mag media or paper.

OIG Comment:

Based on our audit, we have pointed out that, because SSA was not keeping the type of records we are recommending, there was no way of telling when tapes were returned to the employers or when the employers sent the tapes back to SSA for processing. The absence of such statistical data precludes ready determination of whether any problems exist and hampers assessment of the nature and extent of such problems.

Since the suggested changes to the ERTABACO control program will not pose severe programming problems, we cannot understand SSA's reluctance to gather data that would be useful in enhancing the management of this important process.

13. Tapes resubmitted by employers be re-input to the system by the use of a new employer control card identifying the tape as a resubmittal. This should input the tape through the "EDP" status designation, thus recording for control purposes the receipt date for the resubmitted tape.

SSA Comment:

The current TABACO system does what is being suggested. It provides the "R" indicator showing that a tape has been resubmitted, the status changes to "EDP" upon reintroduction, and the date is reinitialized.

14. ERTABACO be programmed to automatically "roll-over" to the subsequent processing year all wage reports remaining uncompleted in a previous processing year.

SSA Comment:

We do not agree. Ideally, we should complete everything for a report year in a 1-year time span, so that the "roll-over" concept would be unnecessary. Since we can always have the situation of resubmittals occurring after the process year has closed, the manner of assigning TLCNs provides for separate identification of current year reports, adjustments, and delinquents. Any report held over or received after the close of the process year becomes "delinquent" and therefore must have a new TLCN assigned in that category.

OIG Comment:

Ideally, yes -- SSA should complete everything for a reporting year within a one-year time span. If this were true, the need for the "roll-over" concept would be obviated. Our report indicated that, as of 1981, there were still some 1978 wage reports that had not processed. SSA has not shown why a carry-over report "must" have a new TLCN in the "delinquent" category. The assigned TLCN identifies it as a previous year's report, to be handled as such by the system.

The roll-over feature is a precaution that should be built into any system, to protect against events and circumstances beyond management's control that could circumvent existing safeguards.

15. The elapsed time counter in ERTABACO be modified to keep track of the total number of days required to process employer wage data through the system, even if it takes longer than one year to do so.

SSA Comment:

We see only minimal benefit from implementation of this recommendation. Mag media reports which take longer than one-year to process will have the prior year TLCN or a unique TLCN assigned. This in itself will identify it as an aged item which should receive priority processing. As mentioned in Recommendation 14 above, ideally, we should complete everything in a one-year time span so this would be unnecessary.

OIG Comment:

To identify and control prior years' magnetic media reports is one thing; to know how long it takes to process them is quite another. We believe that management should be interested in this kind of information, and should be using it to monitor performance.

16. Converted annual tapes for the three employers who had not processed through final balancing but were shown by ERTABACO as complete, be retrieved from the vault, reconciled, balanced, and processed.

SSA Comment:

These reports have been rebatched and processed. We are presently reviewing all "completes" on 1978 TABACO to assure complete processing.

17. The five employer tapes that were not picked up as received by ERTABACO be retrieved from the vault, input to the system, and processed.

SSA Comment:

These reports have been batched and processed. We have compared the EDP tape log entries against the final 1978 TABACO report to identify all nonprocessed 1978 reports. Processing has been attempted. Where format problems were found they were returned for correction (the preponderance of cases); where the reports were processable, they have been batched and processed. This activity has been completed. In addition, all 1978 tapes have been removed from the tape library, have been researched against SSA processed records, and are being returned to the reporters.

Many of the changes conflicted with previous instructions or were at variance with the contents of prior memoranda. Some changes were made to get the wage reports to process, without correcting the problems. SSA thought that IRS would reconcile any differences and then notify SSA to adjust its records. IRS, however, was not able to reconcile all 1978 out-of-balance wage reports and in July 1980, informed SSA. In September 1980, IRS again advised SSA that the reconciliation for tax year 1979 would be limited to about 46 percent (776,000 out of 1,692,000) of the out-of-balance cases expected.

To provide a greater degree of direction and control, SSA's Office of Operational Policy and Procedures (OOPP) took over the administration of the annual wage report process from the Office of Systems in the latter part of 1979. By this time, the 1979 tapes started to arrive and in January 1980, the clerical balancing staff stopped work on 9.8 million unprocessed and unprocessable 1978 wage items.

In August 1980, a task force was formed to resolve the problems associated with the 1978 tapes so that they could be processed. The first action of the task force was to find out what caused the system to reject these tapes. As of June 1981, the task force had cleared up all but about 400,000 wage items, valued at about $1.9 billion.

The task force, however, did not document its efforts by identifying, for each wage report, the discrepancy, and the actions taken to process the reports. Therefore, a basis for possible program and procedure changes that would preclude recurrence of similar conditions was obviated.

Moreover, the task force did not include all of the 9.8 million wage items in its review. Eliminated were about two million non-FICA items estimated at about $21.5 billion and nearly 1.5 million other wage items estimated at approximately $6.6 billion.

The two million non-FICA wage items were not reviewed because they were received after the cut-off date established by IRS. Since IRS did not want any data received after the cut-off date, the task force assumed that no purpose would be served by reviewing and posting data from these tapes. SSA's Office of the Actuary, however, plans to use the wages posted in SSA's records to compute the average annual wages paid to American workers. Future non-FICA wage data must therefore be, reviewed, processed and posted to the Earnings Records if it is to serve as the basis for computation of average annual wages.

The 1.5 million other items not reviewed involved wage reports that were shown as "complete" by SSA's ERTABACO (Earnings Reports Tape Balancing Control Program). The ERTABACO program, as previously reported, can not be used as a control to show whether or not wage reports completed the processing cycle. Therefore, the actual posting of the 1.5 million wage items will have to be verified.

Because of SSA's policy of accepting tapes prepared on many different computers using a broad spectrum of recording methods and techniques, the incidence of totally or partially incompatible employer tapes was high. Tapes had to be returned to the employers because of format errors, missing data, or other problems. The employers were required to correct the errors and resubmit the tapes to SSA.

For 1978, however, there was no control over what tapes had been returned, how many were returned, or whether the employers ever resubmitted the tapes to SSA for processing. In June 1981, we found 38 reels of magnetic tape containing 1978 wage and tax data that had not entered the processing system and had not been placed under automated control. Employers had resubmitted these tapes to SSA sporadically since January 1981.

Since these tapes represented wage items that were nearly three years old, we inquired as to why they had not been processed as soon as they came in. OS and OOPP personnel informed us that because of the age of the data, the tapes had to be classified as "delinquent", requiring special TLCNs (which were unavailable) in order to process. We noted, however, that the TLCNs were available in February 1981, at which time the tapes could have been processed. We brought this to the attention of management and, at June 10, 1981, the 38 tapes were put into the automated control process and entered into the first stage of processing.

As of July 14, 1981, SSA had processed only 29 of the 38 tapes through the initial balancing operation; the 29 tapes contained wages totalling over $3 billion for about 703,000 employees of 2,174 employers.

Since SSA did not have effective controls in 1978, there is no assurance that all tapes that should have been returned to the employers for correction were in fact returned, or that tapes that had been returned were resubmitted by the employers for processing. For example:

Tapes Returned To Employer But Not Resubmitted

Two reels of tape involving 1978 wages for 1,716 employees arrived at SSA's tape library on February 9, 1979. Neither tape, however, could be processed, so they were returned to the employer for correction on March 16, 1979. On September 18, 1980, we checked and found that SSA had not received any resubmitted tapes from this employer.

We contacted the employer to find out what happened. We were told that there was no documentation available to determine what happened and that the tax year 1978 wage data information on magnetic tape was destroyed. We obtained the names and Social Security numbers (SSN) of 25 persons employed in 1979 as well as SSNs for two individuals known to have worked in 1978. We traced these SSNs to SSA's Earnings Reference File (ERF) and found that none of the employees had any 1978 wages posted.

Since 1978 wages were not posted we concluded that the tapes were not resubmitted by these employers. Also, since information on the tapes was destroyed, SSA should request paper documents from this employer in order to obtain the data necessary to post to the employees' earnings records.

Tapes That Should Have Been Returned to the Employer But Were Not

An employer with 5,104 employees had not been authorized in advance to file wage reports on tape; when the tape was received by SSA, the tape library control number (TLCN) was assigned manually, rather than by the computer. When receipt of this tape was recorded in SSA's automated Earnings Reports Tape Balancing Control Program (ERTABACO), the TLCN was inadvertently transposed from TLCN 06170 to TLCN 01670. The inverse TLCN, 01670, had been previously pre-assigned to a different employer which had already been processed.

When SSA tried to process the unauthorized tape, they could not because of format and coding problems. The tape was then placed in the tape vault to await disposition instructions. Because of the confusion in the TLCN, however, SSA thought that this tape had already processed when in fact it had not. As of June 1981, the unauthorized tape with 5,104 employee wages was still in the tape vault.

"Another continuing problem involves features of employers' computers that are not compatible with SSA's computers. Some of the problems could easily be solved if SSA's technical people could communicate directly with the employer's technical people. SSA, however, has directed that all communications with the employers be carried out through the Regional Offices. This arrangement can create problems because Regional personnel, not being technically oriented, may have difficulty in transmitting and explaining the technical aspects of the problems and their related solutions. In our opinion, this tends to inhibit the free flow of information, which can be better handled by direct programmer-to-programmer contact.

In spite of the processing problems encountered, SSA still allows employers to submit tapes that are incompatible with SSA computers. While we support and encourage magnetic tape submittals, SSA needs to change its policies and focus on receiving quality rather than quantity of tapes.

Although OOPP has, since the latter part of 1979, devised written operating procedures, made changes in policy, and generally tried to improve annual wage report processing operations, problems continue to exist. Many of the new procedures and policies were developed without input by the two components most affected by the changes -- the Office of Systems (OS) and the Office of Central Records Operations (OCRO).

Manual Review, Correction, and Control Operations

A computer listing known as the Earnings Accounts Summary of Annual Tape (EASAT) is prepared for every employer who reports on tape. It summarizes the wage and tax data reported by the employer, totals and compares the data reported to the data processed, and identifies any differences.

This listing is used by clerks at the Reconciliation Branch (ROB). They annotate the EASAT with the corrections to be made, and use it as a control document for making the changes to the employers wage reports.

If the differences could not be corrected, the wage reports were force-processed through the system. In such cases, the employer was to be contacted for assistance in resolving the differences.

We selected a sample of 421 wage reports to ascertain how out-of-balance wage reports were handled. For 106 wage reports, EASAT listings were not in the files, we, therefore, could not tell how these particular ones were handled.

For the remaining 315 wage reports, we found that 19 wage reports were processed even though there were differences between what the computer coded and what was reported on the tapes for one or more of the five money fields: FICA Wages, FICA Tips, Total Compensation, FICA Tax Withheld, and Federal Income Tax Withheld. The schedule below shows the dollar value of the differences between the processed and reported amounts as shown on the EASAT listings:

Summary of Differences
Between Data Processed and Data Reported

Processed to Reported	No. of Rpts.	FICA Wages	FICA Tips	Total Comp.	FICA Tax With.	Federal Inc. Tax With.
Lesser	7	$208,600	$7,616,225	$68,562,469	$4,054,330	$195,142,926
Greater	12	38,962	-	47,936	179,496	441
	19	$247,562	$7,616,225	$68,610,405	$4,233,826	$195,143,367

When processed amount are less than reported, it could mean that more wage items were on the tape than was reports, or that wages or other amounts were not included in the reported figures.

Because the employer control folders, maintained by ROB, were not documented to show whether the differences were brought to the attention of the employers, we contacted Regional offices to find out if the employers were notified.

Of the 15 cases discussed with the Regions, 11 were not documented as having had any contact. The other four had had contacts, but not for the differences shown in the table above.

For tax years 1978 and 1979, SSA's policy was to force-process or force-balance wage reports through the system, regardless of the differences between the reported and processed amounts. This was done to accelerate the processing of the wage reports and expedite the flow of data to IRS for its reconciliation process. However, employers were to be contacted by SSA to resolve any differences.

For tax year 1980, SSA established a tolerance of $10 between processed and reported totals. Tapes with a difference of $10 or more were to be returned to the employer for correction and resubmittal rather than force processing them through the system.

Under the current tolerance rule, for example, if a service bureau submitted tape containing wage information for, say, 50 client employers, and one of these employers had a $10 error, the entire submittal would be returned to the transmitter, even though the data for the other 49 employers were in balance. Also wage reports received from large employers, containing thousands of employees and millions of dollars in wages, would also be returned for $10 error. The policy of returning magnetic tape submittals for adjustment of relatively minor differences, in our opinion, is ill-advised.

We believe that a more meaningful tolerance would be one that would vary, based on the relative significance of the wage data: the size of the employer, the number of employees, and the wage and tax dollar value involved.

Tapes with discrepancies greater than the tolerance should be held and the employer contacted by telephone. If, after contacting the employer, the discrepancy can be corrected, the employer's file should be documented with the results of the contact and the tape should then be processed. Also, suspense files should be established to insure that employers submit correction documents or related materials as may be needed.

To assure prompt action, employer contacts should be made by ROB eliminating the unneeded layers of responsibility, and reduce the administrative detail inherent in the current procedure of making contacts through SSA's policy-making component and the Regional offices.

Annual Summary and Transmittal Documents -- IRS Forms 4804

Wage and tax data recorded on the magnetic tape must agree with the total payment amounts shown on the IRS Form 4804, Annual Summary and Transmittal of Income, Tax, and Information Statements Reported on Magnetic Media. The IRS Form 4804 is an affidavit whereby the payer, or the payer's representative, certifies that the total payment amounts, as shown on the form, reflect the exact money totals for each wage and tax field as reported on magnetic tape. IRS informed us that this form is considered a legal document and must be accurately filed by the employers and safeguarded by SSA.

We reviewed a sample of wage reports to (i) ascertain whether the totals on the IRS Forms 4804 agreed with totals recorded on tape as reflected on the EASAT computer listings, (ii) determine how differences were resolved, and (iii) evaluate SSA's controls over these forms.

We found that 149 of the 566 IRS Forms 4804 had not been sent in by the employers, and that 104 of those that were sent in did not agree with the data reported by the employer on magnetic tape in one or more of the five significant money fields. The following schedule summarizes the differences:

Summary of Differences
IRS 4804 Greater (1) or Lesser (2)
than Processed Data per EASAT

	No. of 4804s	FICA Wages	FICA Tips	Total Compensation	FICA Tax With.	Federal Inc. Tax With.
(1)	59	$1,274,314,426	$1,849,500	$1,306,318,531	$82,412,497	$266,654,238
(2)	64	18,399,432	198,937	29,299,545	92,833	4,066,157
	123 1/	$1,292,713,858	$2,048,437	$1,335,618,076	$82,505,330	$270,720,395

1/ The difference of 19 (123-104) is due to individual IRS Forms 4804 that had differences greater than their related EASAT in some money fields and other differences lesser than the EASAT in other money fields.

To expedite processing, ROB personnel were instructed to process all wage reports received without IRS Forms 4804, as well as those where the IRS 4804 was unsigned. ROB was also instructed to maintain records on these cases, so that employers could be contacted at a later date and corrective action initiated.

In cases where the processed data for the wage report did not equal the amounts reported on the IRS 4804, a tolerance of $250,000 was established. Reports with IRS 4804 discrepancies of less than $250,000 were to be force-processed through the system and action taken to contact the employer. Reports with IRS 4804 discrepancies of $250,000 or more were to be held from processing pending action to contact the employer. The policy of contacting employers to initiate corrective action, however, was not always followed.

In cases where the amounts on the IRS 4804 did not equal the totals on the wage report, ROB personnel were instructed to change the wage report totals to make them agree with those on the IRS 4804. This was done, even though the processed and reported amounts were in balance prior to the change. Thus, by changing the wage reported amounts to agree with the IRS 4804, SSA deliberately created an out-of-balance condition.

In the latter part of the processing for tax year 1978, this policy was discontinued. SSA, however, did not go back to the reports that had been changed to correct its previous actions.

In April 1980, SSA again changed its policy with respect to the IRS Form 4804. Prior to this change, whenever the "processed" totals on magnetic tape did not agree with the data reported on the related IRS Form 4804, the Regional office was requested to contact the employer for an explanation of the differences and obtain a signed corrected form.

Under the new policy, if the original IRS 4804 was signed by the employer, the Regional offices are not required to obtain a signed corrected form. They are only required to document the changes made per contact with the employer. According to OOPP, this policy was instituted because both the employers and the Regional personnel did not consider it necessary to obtain a corrected signed IRS Form 4804 and preferred instead to reply on telephone contacts.

We are concerned that, under this policy, SSA may not be doing enough to adequately fulfill its legal responsibility to maintain signed documents certifying what the employers reported on tape. Failure to maintain the juridical status of the IRS 4804 could hamper the IRS enforcement process, and could subject SSA to censure if, as a result, IRS would be unable to recover amounts due from an employer.

Further hampering the clerical balancing and reconciliation operation is the need for ROB personnel to manually reconcile the data reported on IRS Forms 4804 to the amounts reported on tape. This is a tedious, time-consuming effort that slows down the reconciliation process and delays the posting to the earnings records of individual employees.

Our review showed that 313 out of 417 IRS Forms 4804 agreed with the comparable data on the employer's tapes; nevertheless the computer generated EASAT listings. These listings were then sent to ROB for reconciliation purposes. In the interim, the related tapes were removed from processing and returned to the vault. These tapes remained in the vault until ROB had completed its review and indicated that processing could continue.

The reconciliation function can be automated and, at the same time, streamlined to speed up tape processing. If the data on the IRS Form 4804 were input to the system together with the employer's wage data reported on magnetic tape, the comparison of IRS 4804 data to tape-recorded data could be done by the computer. Thus, ROB would only get involved in those cases where the two sets of data disagreed. In such instances, the computer would generate listings that would permit ROB to reconcile the differences.

Corrections of Out-of-Balance Reports

Employer wage reports are corrected by means of punched cards which are input to the system. When the cards and the related tape are processed, the final electronic balancing program applies the corrections and rebalances and re-edits, the data.

The correction cards can be used to perform a variety of functions. Balancing clerks may change any of the employer identifying data appearing in the header record of the wage report, change one or more of the "reported" money fields, and force-process a report through the system. The correction cards can also be used to delete one or several individual employee item records from the report, as well as to add such records.

Although these cards are a powerful tool having a significant impact on the sensitive area of employee wages, their use is not adequately monitored or controlled. Some supervisors occasionally review a balancing clerk's use of correction cards, however, this is not done regularly, consistently, or systematically. Reviews cannot be made on an after-the-fact basis because the cards are destroyed after input. Consequently, legitimate wage items could be altered or converted by ROB personnel for personal gain or other illegal use.

To assist management in monitoring the wage report correction process, all adjustments and corrections should be recorded on tape. This tape should identify the type of transaction, the responsible clerk, the date of the action, and the wage report being corrected. Data on this tape, if printed out in various sequences and formats, can generate statistics and management data useful in determining the number and frequency of various types of corrections, as well as the frequency of use by individual clerks or for individual employers.

In addition to the procedures for correcting wage reports in current processing, there is a need for management to focus attention on wage reports that have completed processing, but require adjustment. Wage and tax data on reports that have completed SSA's processing is given to IRS so that tax withholdings reported to SSA can be reconciled with taxes collected by IRS. If the reconciliation turns up errors, IRS contacts the employers to resolve them. The results of the reconciliation process are sent to SSA for use in adjusting employee wage records where necessary.

In January 1981, IRS sent SSA a magnetic tape containing all cases (missing and discrepant) unreconciled after the IRS cutoff. This tape contains data on 1,009,766 employers, more than 540,000 of which, according to IRS, are those for which SSA had not processed a wage report -- because the reports were not received by SSA, were received but lost or misplaced, or received and still in process. An additional 466,383 cases on the tape represent wage reports which could not be reconciled because of insufficient data or inadequate IRS resources.

Although the IRS tape was received in January 1981, it was not until July 1981 that OOPP requested the Office of Systems (OS) to write a computer program to sort and count the cases on the tape.

At intervals over the past two years, IRS has also been sending SSA paper documents indicating that adjustments may be necessary to the 1978 wage reports of about 150,000 employers. These documents represent employers' 1978 wage reports which, as a result of IRS's reconciliation, require corrections to SSA's records.

Also, an unknown but voluminous number of additional adjustment documents have been received from IRS for which counts have not been maintained. These documents which SSA began receiving in October 1980 for 1978 wage reports, are so numerous that SSA personnel have to account for them by the pound.

Although SSA is required to review these documents and correct the individual employees' Summary Earnings Records where necessary, very little action has been taken, because (i) procedures have not been written, (ii) operations personnel have not been trained, (iii) low priorities have been assigned, and (iv) current workloads have taken precedence.

Further aggravating the already serious conditions created by SSA's failure to review and process wage report adjustments received from IRS, we found that paper wage reports for 1978, received by SSA after October 1, 1979, were sent directly to IRS without being processed. SSA did this in keeping with its agreement with IRS. SSA did not, however, track the reports that came in and were sent to IRS. There is no assurance, therefore, that all reports will be returned, processed, and posted to the Summary Earnings Records of individual employees. In our opinion, SSA has been ill-advised in giving these reports to IRS without adequate controls to assure their return for processing and posting.

Wage report corrections, adjustments, and late wage reports are just as important in their effects on prospective benefit computations for the individuals involved, as are the regular wage reports. To fulfill its obligation to the wage-earner, SSA should assign all resources necessary to:

(i) follow through on all wage reports force-processed through the system -- contact the employers, resolve all differences, and correct all erroneous postings associated with these reports;

(ii) review all wage report adjustments (tape and paper) received from IRS to make sure that corrections are made to employee earnings records where necessary; and

(iii) process late wage reports (received immediately upon receipt, by making copies for processing purposes and giving the originals to IRS for tax administration purposes.

Recommendations

We recommended that:

1. SSA assure that all future non-FICA wage data are promptly and accurately processed and posted to the non-FICA Earnings Reference File (ERF).

SSA Comment:

We agree.

2. SSA also investigate the 1.5 million wage items not reviewed by the OOPP task force because the related wage reports were assumed to be "complete". If these wage items have not been posted, SSA should take all steps necessary to ensure that these, too, are promptly and accurately processed and posted.

SSA Comment:

We have recently completed a review of all 1978 mag media wage items assumed to be complete in order to assure that such is the case.

3. SSA expedite the processing and posting of 400,000 wage items still unresolved by the OOPP task force, as well as all of the resubmitted tapes for the 1978 tax year that have not yet entered or completed processing.

SSA Comment:

All 1978 magnetic media reports have been reviewed by the task force and processing has been completed or they have been returned for resubmittal. SSA posted 608,000 tape wage items for 1978 in the 8/81 posting cycle.

Presently, we are following-up on the 25 outstanding resubmittal requests. As the responses are received, we are finding that many have been previously submitted via paper.

4. Paper wage and tax documents be requested from the two Air Force bases in Alaska whose 1978 wage tapes did not process. On receipt of these documents, immediate action should be taken to process them and post the wages involved.

SSA Comment:

We have received and processed paper from one of these AFBs. We have received a paper listing from the second, but it only contained employee SSNs, no names. We've asked for additional information.

5. Immediate action be taken to retrieve from the vault the 1978 wage tape submitted by the Naval Weapons Station, China Lake, California. If unresolvable format and coding problems in this tape prevent it from processing, it should be returned for correction and resubmittal. If correction is not possible, the employers should be requested to submit on paper. If the problems can be easily resolved in house, or if there are no problems, the tape should be processed.

SSA Comment:

The tape technical problems have been solved and the report processed. The records should be posted in the January 1982 posting cycle.

6. The tape vault be searched to find any other 1978 annual wage tapes that have not yet entered the system or have not been completely processed. The processing of these tapes should be initiated immediately and expedited to completion.

SSA Comment:

This has been accomplished via the EDP log - TABACO reconciliation, by comparison to the current systems reports of tapes in house, and by pulling all 1978 for return to the reporters.

7. Annual wage tapes that cause continuing problems, such as those with "signed" numeric fields or unrecognizable end-of-tape indicators, no longer be accepted for processing. Any such unprocessed tapes that are currently on hand should be discussed with responsible technical personnel at the employers, to determine whether anything can be done to permit these tapes to process with SSA's in house capability. If this cannot be accomplished, the tapes should be returned to the employers as "unprocessable" and paper documents requested, if necessary.

SSA Comment:

The problems cited are not considered to be continuing since they have just been encountered. The signed field requirements were discussed with the reporting employer in a three-way telephone conference between the employer, the SSA Regional Representative, and the Section Chief from OSD. The employer agreed to attempt to revise and resubmit the tape report.

The unrecognizable end-of-tape problem was likewise first encountered with TY 1980 reports. It has been resolved by OSD and the reports are being processed.

8. Direct contact be authorized between SSA systems personnel and their counterparts at the employers whenever technical problems need to be resolved.

SSA Comment:

See comment to Recommendation #4, Section II above.

OIG Comment:

In our report, we pointed out that many of the technical problems that are being experienced by SSA could easily be solved if SSA's technical people could communicate directly with the employer's technical people. This is because Regional personnel are not technically oriented and thus have difficulty in transmitting and explaining the technical aspects of problems and their solutions.

9. SSA discontinue its policy of allowing employers to submit tapes that are incompatible with SSA's computers, or require significant programming effort in order to be accepted. Instead, SSA should focus its policies on quality, rather than quantity, of annual wage reporting on tape.

SSA Comment:

SSA discontinued any significant special programming with TY 1980 for AWR mag media. These reports are now returned for correction. We have also, effective with TY 1981, discontinued the receipt of cassettes and cartridges.

10. Magnetic tape reporting standards should be explicitly defined to assure tape compatibility with SSA's computers. These standards should be clearly explained to the employers and strictly enforced by SSA.

SSA Comment:

We are preparing a specific list of these materials, as discussed in Section II, Recommendation #2, for use of the regional staffs in their employer contacts.

OIG Comment:

As mentioned in our report, and in previous replies to SSA's comments, the regional staffs are not especially capable of carrying out the duties imposed on them by the central office, and are not overly anxious to undertake these responsibilities.

11. In formulating policy and developing procedures, SSA's Office of Operational Policy and Procedures should work together with the operating and systems components to assure that (i) problems affecting these components are analyzed and resolved, and (ii) proposed changes will accomplish their intended purposes without adverse impact on the others' functional responsibilities.

SSA Comment:

We agree. There are several SSA components involved in the AWR process and all must work closely together in order to be fully effective.

12. SSA follow through all wage reports that have been force-processed through the system - contact the employers, resolve all differences, and correct all erroneous postings associated with these reports.

SSA Comment:

It is possible that for 1978 there was no employer contact at the time the "force processing" occurred on some reports. The reconciliation process that IRS undertook in 1980, or the adjustment processing SSA has underway now, will identify all such discrepant situations and lead to their resolution and, where necessary, to employer contact.

13. SSA enforce the practice of contacting employers when necessary to resolve differences between processed and reported data on wage reports or between wage reports and IRS Forms 4804.

SSA Comment:

It has been SSA policy to require contact to rationalize differences, and as a minimum to require correspondence to the employer.

OIG Comment:

The practice of contacting employers to resolve differences may well have been SSA policy. We pointed out in our report, however, that the policy was not always followed. We would appreciate knowing exactly what SSA intends to do to ensure that it is enforced.

14. The $10 tolerance between processed and reported data on EASAT listings be changed to a variable amount based on relative significance of the wage report data. Tape submittals exceeding the tolerance amount should be temporarily held for immediate employer contact. Tapes which do not exceed the tolerance should be processed, and the discrepancies documented for subsequent employer contact.

SSA Comment:

We do not agree. The $10 is an administrative device to minimize processing interruptions/clerical involvement in these situations involving small money variances. We are assessing the utility of increasing the $10 limit, but do not plan to have a variable based on the number of items on the wage report. Obviously, the money difference can affect one or more wage earners and therewith, the earnings amount posted to their Social Security record (for FICA fields). The amount has to be maintained at a level which will not adversely affect the benefit computation of an individual worker. Whether the employer is reporting one worker or half a million, the tolerance applied to any one of those workers will have the same impact. Also, to require notification of an employer in situations where the tolerance is used would defeat the purpose of the tolerance.

This recommendation is directly contrary to the sense of recommendations #1, 2, 3, and 12 of this section which would direct SSA to resolve all discrepancies.

OIG Comment:

SSA does not indicate a reason for its opposition to a variable tolerance based on the relative significance of data reported on wage reports. We consider SSA's comments misleading and not relevant to the concept of a variable tolerance. In our opinion, the current $10 fixed tolerance is too low and creates more problems than it solves. As we mentioned in our report, it does not seem prudent to suspend the processing of wage data affecting thousands of employees merely because one wage item has been misstated by slightly more than $10

This recommendation does not deviate from our stated position that SSA should resolve all discrepancies. Rather, it has been our position all along that not only should the discrepancies be resolved, but also that the employers be contacted regarding all issues that cannot be resolved in house. We have also maintained that all contacts be fully documented and filed in one central location.

15. Employer contacts regarding differences between processed and reported data on annual wage reports and IRS Forms 4804 be made by Reconciliation Branch (ROB) personnel, through direct telephone communication.

SSA Comment:

See comments regarding Recommendation #11, Section II.

OIG Comment:

SSA's reply is not responsive to this recommendation. In comments to Recommendation #11, Section II, SSA states that ROB personnel (OCRO) may contact employers in specific situations. SSA does not, however, describe just what these "specific situations" would be.

16. All employer contacts be thoroughly documented as to purpose, results, and data to be furnished by the employer. All documentation should be maintained by ROB in the employer control folders. These folders (or an appropriate suspense file) should be monitored to insure that employers fulfill their part of any agreements made.

SSA Comment:

All employer contacts are now thoroughly documented where there is substantive data to record, within ROB. The responsibility to monitor/follow up on employers' resubmittal of tape or on submission of paper is charged to the regional offices.

OIG Comment:

Again, SSA seems to be promoting regional office involvement in the employer contact function as it pertains to annual wage reporting. If the central files are to be maintained in ROB and, if resubmittal or nonsubmittal of a wage report affects ROB's operations, it then follows that ROB should have the responsibility for ensuring employer compliance.

17. The practice of substituting telephone conversation memoranda for signed updated IRS Forms 4804 be discontinued immediately.

SSA Comment:

We do not concur. Where there is no document, SSA follows up to secure one. However, where an amended report is necessary, a telephone call will suffice.

We are aware that the IG auditors contacted IRS on this issue and were advised that IRS concurs with SSA.

OIG Comment:

We again contacted IRS after receiving SSA's reply and learned that IRS is not sure of the legal requirements for an updated IRS Form 6559 (formerly 4804). We were informed that IRS will consult with its general counsel regarding this matter and will advise us at a later date.

Since the IRS requires that the original Form 6559 be signed and attested by a corporate officer, we believe that any changes made should be attested to by the corporate officer. If IRS determines that an updated version need not be prepared, then perhaps the need for corporate officers to attest to what was originally paid to employees is also unnecessary.

18. The function of verifying data reported on IRS Forms 4804 with data reported and processed on annual wage reports be done by the computer, rather than manually. When this function is automated, there should be no need for the computer to generate EASAT listings for wage reports that are completely in balance, merely for comparison with data on IRS Forms 4804. A listing should be produced, however, to advise ROB of which tapes were in balance and could continue processing.

SSA Comment:

Under the current processing system, the data from the Form 6559 (formerly Form 4804) could only be entered by punchcard or a tape. This would require extensive reprogramming for a rather uncertain result, because the processing of punchcards can be unreliable or generate additional control problems. Positive results could only be assured by incorporating the recommendation in a systems redesign. We are, however, evaluating systems changes which would provide for post-verification by ROB of the "4804" data against the EASAT listing where reports are in balance.

OIG Comment:

SSA's disagreement to automate the matching of wage data reported on IRS form 6559 with wage data reported on magnetic tape is unconvincing. Currently, literally millions of wage items reported on paper are keypunched with an evidently satisfactory level of reliability. Also, all corrections and adjustments to wage reports are keypunched, again with apparently acceptable reliability.

The cost and effort to automate a cumbersome time consuming process is small compared to the value of relieving personnel to perform the task of reconciling wage reports that are out of balance as well as performing the many other tasks assigned to these people.

We are not at all sure what SSA has in mind when they say that they are evaluating system changes which would provide for postverification of wage data.

19. All wage report corrections and adjustments input to the system by punched cards be captured on tape, together with all information necessary to identify the type of transaction, the date of the action, the wage report being corrected, and the responsible clerk. Data on this tape should be used to generate management data and statistics to be used for monitoring the manner and frequency in which correction transactions are used.

SSA Comment:

We agree. Retention of these data would provide an audit trail back to the source of changes to reports. Presently, the data are available at two points in the system: they are listed on the EAFINBAL "sysout" and they are recorded on a separate input tape to the EAFINBAL process. Systems changes are in process to retain these data for audit trail purposes both in the current process, and in the online balancing processes being developed. Meantime, we have retained the original EASATs with the clerical annotations for change as part of the audit trail materials.

20. SSA expedite its review of the 1,009,766 unreconciled, missing, and discrepant cases represented by the adjustment tape received from IRS in January 1981.

SSA Comment:

Preliminary analysis of the TY 1978 IRS unreconciled cases shows that as many as 17 percent of the alleged missing reports were timely processed to SSA records, 18 percent of the discrepancy cases involve situations where the employers failed to complete the FICA Wages field and for which action has been initiated to electronically recover the items, and 10 percent of the discrepancy situations involve amounts less than $25.00. Complete analysis of the IRS unreconciled file will be completed by 2/28/82 and priority attention will be directed toward appropriate resolution of these cases.

21. SSA review all wage report adjustments received from IRS to make sure that all necessary corrections are made to the earnings records of the employees involved.

SSA Comment:

See our comment on Recommendation #9, Section IV.

22. SSA make copies of all paper reports received after the cut-off date established by IRS; these copies are to be used for processing the reports, and the originals sent to IRS for tax administration purposes.

SSA Comment:

We do not agree. SSA provided listings to IRS of late-received employer reports. We held the paper and processed it. For 1979 and 1980, we microfilmed the paper and shipped the paper to IRS. It is desirable from an SSA standpoint to immediately key and process the materials, and provide only the resultant tape records to IRS. However, IRS, at present, established a cutoff point after which late receipts must be provided expeditiously for their tax administration purposes. We shall be discussing this issue with IRS at the upcoming review of the annual wage reporting interagency agreement.

OIG Comment:

SSA's reply is not responsive to our recommendation, which deals with wage reports received after the IRS cut-off date, not with those that were received prior to the cut-off but were still in process as of the cut-off date. Although a one-time listing of 1978 paper wage reports in the balancing process at the cut-off date was sent to IRS, no such listing was sent for wage reports received after the cut-off date. Similarly, the reconciliations resulting from IRS reviews are microfilmed when they are returned to SSA; "delinquent" employer reports sent to IRS, however, are not.

This was reconfirmed by additional discussions with responsible personnel in OCRO and OEER. In addition, SSA's established procedures for handling "delinquent" reports contain no provisions for making any kinds of copies of these reports, or for otherwise establishing accountability for this workload.

EXHIBIT

Page 1 of 5

PROCESSING OF ANNUAL WAGE REPORTS RECEIVED ON MAGNETIC TAPE

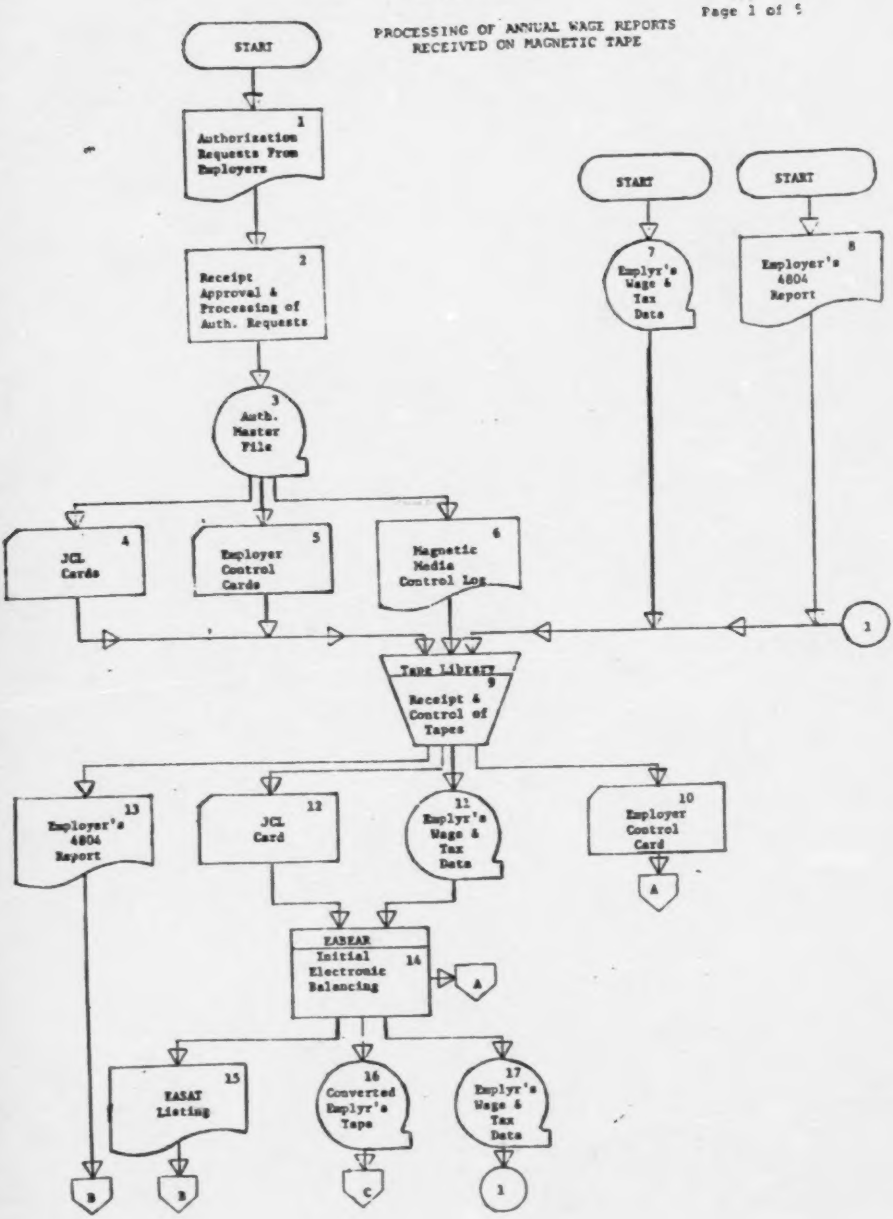
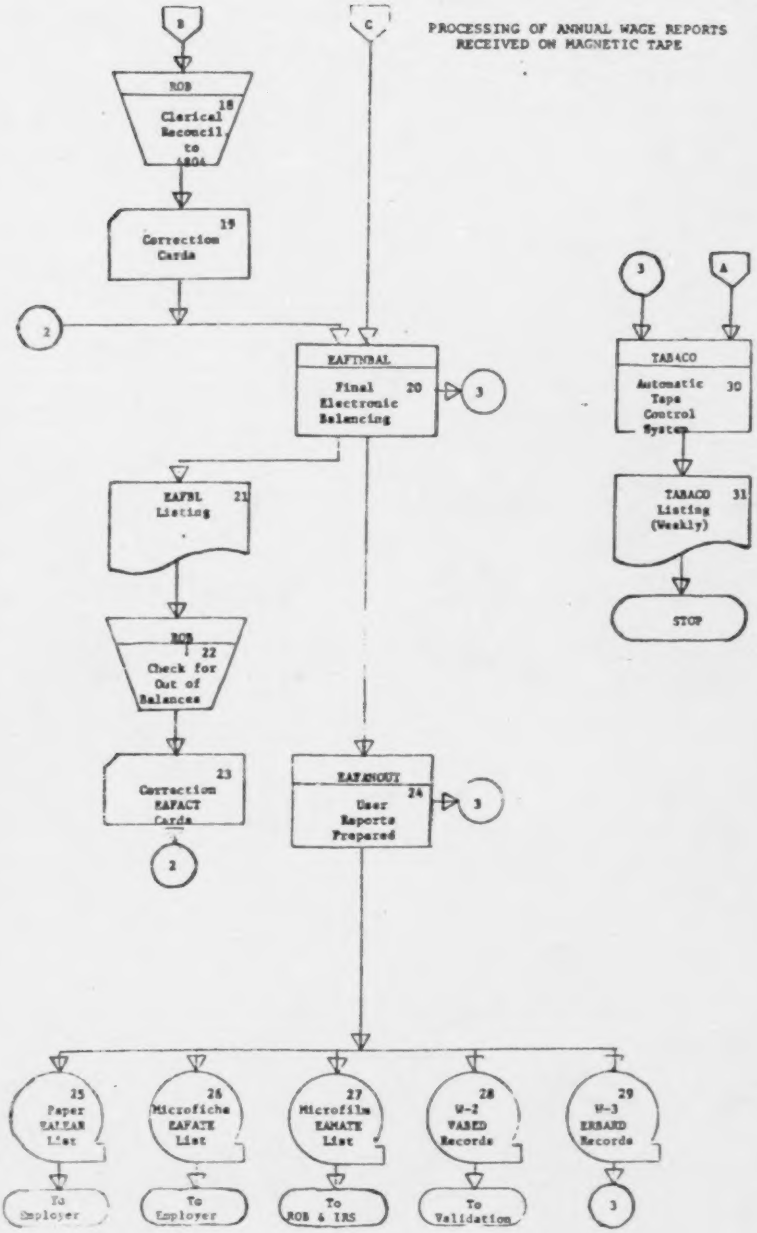

START
1
Authorization Requests From Employers
2
Receipt Approval & Processing of Auth. Requests
3
Auth. Master File
4
JCL Cards
5
Employer Control Cards
6
Magnetic Media Control Log
START
7
Emplyr's Wage & Tax Data
START
8
Employer's 4804 Report
1
Tape Library
9
Receipt & Control of Tapes
13
Employer's 4804 Report
12
JCL Card
11
Emplyr's Wage & Tax Data
10
Employer Control Card
A
EABEAR
Initial Electronic Balancing
14
A
15
EASAT Listing
16
Converted Emplyr's Tape
17
Emplyr's Wage & Tax Data
B
B
C
1

EXHIBIT
Page 2 of 5

PROCESSING OF ANNUAL WAGE REPORTS
RECEIVED ON MAGNETIC TAPE


B
C
ROB
18
Clerical
Reconcil.
to
4804
19
Correction
Cards
2
EAFTNBAL
Final
Electronic
Balancing
20
3
EAFBL
21
Listing
ROB
22
Check for
Out of
Balances
23
Correction
EAFACT
Cards
2
EAFANOUT
24
User
Reports
Prepared
3
3
A
TABACO
Automatic
Tape
Control
System
30
TABACO
31
Listing
(Weekly)
STOP
25
Paper
EALEAN
List
To
Employer
26
Microfiche
EAFATE
List
To
Employer
27
Microfilm
EAMATE
List
To
ROB & IRS
28
W-2
VABED
Records
To
Validation
29
W-3
ERBARD
Records
3

EXHIBIT
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NARRATIVE EXPLANATION OF FLOW CHART

Box 1 - 3 Employers who elect to file their reports on magnetic tape are required to request authorization from SSA. The request provides SSA with the administrative and technical data necessary to determine whether the employer tape can be processed on SSA's computers. If approved, the data on the request form are recorded on the Magnetic Media Reporting Data Base.

Box 4 - 6 Information from the Magnetic Media Reporting Data Base is used to prepare an employer control card, which is used to record receipt of the tape in SSA's annual wage reporting system and a job control language (JCL) card, which is necessary to enable SSA's computer to process the tape. A control log, containing identifying information for employers who have been granted authorization to report on tape is also generated by the Magnetic Media Reporting Data Base. This log is used by SSA to manually record the date tapes were received, processed, and returned to the employer.

Box 7 - 9 Employers submit their wage and tax data on magnetic tape along with an IRS Form 4804 (recently changed to IRS Form 6559) *Annual Summary and Transmittal of Income, Tax, and Information Statements Reported on Magnetic Media*, to SSA's tape library. The form serves as an affidavit whereby the payer or the payer's representative certifies that the total payment amounts, as shown on the form, reflect the exact money totals for each wage and tax field as reported on magnetic tape.

Box 10 - 13 When the employer's tape is received, the control card is entered into the system to establish that the tape was received. The tape, together with the JCL card, is then sent to the computer room for processing. The IRS Form 4804, which accompanied the tape, is sent to the Reconciliation Branch for review and filing.

EXHIBIT
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Box 14	Preliminary balancing of annual wage reports at SSA is done by a computer program known as EABEAR (Balance Employer Annual Reports). This program edits the wage report data to detect invalid data fields, inconsistencies, and discrepancies. It also sums up the employee wage and tax data and compares these totals to the grand totals recorded on the tape.
Box 15 - 17	As each employer tape is being edited by the EABEAR program, two other tapes are created. One tape, containing summary information and discrepancies for each wage report is used to print the EASAT (Summary of Annual Tape Reports) listing. This listing is sent to the Reconciliation Branch for their use. The second tape created is referred to as EACAT (Converted Annual Tape). The EACAT tape at this point takes the place of the employer's tape and is used by SSA to continue on through the rest of the annual wage report processing system. The original employer tape is then sent back to the tape library for eventual return to the employer.
Box 18 - 19	The Reconciliation Branch, using the EASAT listings, investigates out-of-balance conditions and corrects any errors, and also compares the wage and tax totals shown on the EASAT to the wage and tax totals reported on the IRS Form 4804. Any changes made by the Reconciliation Branch are re-entered into the system by means of correction cards.
Box 20 - 23	The final electronic balancing process is performed by a program known as EAFINBAL. This program adjusts the EACAT tapes for the corrections represented by the correction cards, and rebalances and re-edits the tapes. Any errors or out-of-balance conditions are listed on a final balance list (EAFBL) and sent to the Reconciliation Branch for their use in correcting and reinputting the tape through EAFINBAL. The EAFBL also shows those tapes that have successfully completed the final balancing process.

Box 24 - 29	After final balancing, data from in-balance reports are distributed by the EAFANOUT (Fan Data to Outputs) program to five tape files. The EALEAR (List Employer Annual Reports) tape file is used to prepare paper listings of wage reports for employers. The EAFATE (Fiche Annual Tape Employers) tape file is used to prepare microfiche copies of wage reports for employers. The EAMATE (Microfilm Annual Tape Employers) tape file is converted to microfilm for SSA, IRS, and employers' use. The VABED (Validation Balanced Earnings Data) tape file is used to confirm the validity of individual employees' names and social security numbers, before wages are posted to the Summary Earnings Records. The EABARD tape file is used to make the final update to the tape balancing and control (ERTABACO) program.
Box 30 - 31	The ERTABACO program tracks employers' wage data through the entire processing system. It is updated at each step in the processing cycle (when the employer control card is entered, showing that the tape has been received; when the wage data goes through the EABEAR program; and when it goes through the final balancing (EAFINBAL program) to show whether processing of the tape is complete or still in process. A listing from this program is prepared on a weekly basis for use by SSA in determining the status of employer tapes.

MEMORANDUM

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
SOCIAL SECURITY ADMINISTRATION

TO : Mr. Larry K. Simmons
Acting Associate Director
Division of Social Security Audits
OIG Office of Audits

AM-1
DATE : FEB 10 1982
REFER TO: SLE11

FROM : Robert F. McClernan
Deputy Associate Commissioner
Office of Assessment

SUBJECT: SSA Comments on OIG Draft Report on Annual Wage Reporting--INFORMATION

SSA comments on this draft report are attached. We appreciate the opportunity you gave us to review some of the audit findings in the preparation stage as well as to comment on the draft report itself. Please let us know if we can provide additional information.

Robert F. McClernan

Attachment

Social Security Administration Comments on the OIG Audit Agency's Draft Report on the Annual Wage Reporting Process

General Comments

The draft report contains a highlight section which rationalizes some of the problems faced by SSA in implementing AWR. However, it does not begin to put into perspective the enormity of the changes involved, the major systems which had to be devised and made ready, and the vast numbers of people who had to learn a new way to do business, via reporting annually to SSA. These included: staff for the some 5.6 million employers who had previously used a different process to report to IRS quarterly; and systems staffs at SSA and for the mag media reporting entities.

We agree that SSA was not ready to process wage reports, whether magnetic media or paper, in the spring of 1979. Some data processing equipment was received and installed later than scheduled; some, in fact, has yet to be acquired. Once the processes were in place, some systems programs had to be reworked to make them fully reliable, and with the significant increase in the number of magnetic media filers, the control system then devised was not adequate to the task. In addition, in the midst of the conversion to annual reporting, SSA underwent a major reorganization which totally realigned job responsibilities.

In spite of all of this, annual wage reporting was implemented for TY 1978 in 1979. By the end of the first year of processing, SSA had made changes which resulted in a working system and which could handle the workload.

Subsequently as the audit highlights acknowlege, SSA made the following changes:

- SSA now limits, to a few specific minor "errors", its attempts to fix incorrectly prepared tapes before returning them to employers for correction.
- The processing controls on magnetic tape reports have been improved and tightened.
- A special task force has monitored the completion of processing the remaining 1978 reports.
- New procedures were issued to help clerical personnel in their day-to-day operations.
- The program dealing with the final balancing operation was completely rewritten to better handle that phase of the operation.

We do not believe the report adequately highlights the extent of changes required across SSA's operational processes and systems in order to deal with annual adjustment records and the sequential nature of SSA to IRS to SSA AWR processing. Because of higher priorities these changes have only recently been put into place; that is one reason why duplicate or discrepant reports for 1978 are not fully resolved. In addition, as a consequence of the IRS reconcilation and SSA's follow-up on return reports, we are still receiving delinquent and/or corrected 1978 reports.

The materials returned by IRS, and SSA's records provide the capability to identify and fully resolve all discrepant situations. It is SSA's intent, as has historically been the case, to resolve all such situations, either based on our internal processes, or through contact as necessary with the employer or the employee. We are confident this resolution will be completed in 1982. Obviously, with the capabilities in place and functioning properly, reconciliation returns from IRS for subsequent years should move more smoothly and rapidly to resolution. Presently, activities underway include:

- Activities to process the IRS reconciliation returns.
- Activities to identify and correct additional reconciliation situations within SSA.
- Efforts are continuing to secure the necessary ADP-related capabilities to process inhouse all types of magnetic media being received.
- Efforts to improve the regional capabilities to promote magnetic media reporting, to monitor incorrect reports and resubmittals, and to provide technical assistance to employers.
- Revision of the Technical Information Bulletin to update and clarify the reporting specifications and formats.
- Addition of a new record (code B) into the reporting specifications which will include the authorization form data.
- Elimination of disk cartridges and cassettes as acceptable reporting magnetic media beginning with tax year 1982.
- Evaluating the magnetic media processing system with intent of complete redesign.

SSA's comments to the individual recommendations are incorporated verbatim in the body of the report as they relate to the subject matter in each section.

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